

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF GEORGIA  
ATLANTA DIVISION

- - - - -x

SECURITIES AND EXCHANGE :

COMMISSION, :

Plaintiff, :Civil Action No:

v. :1:10-cv-03374-WSD

PAUL T. MANNION, JR., et al., :

Defendants. :

- - - - -x

Washington, D.C.

Tuesday, December 13, 2011

Deposition of ANDREW S. RECKLES, a  
witness herein, called for examination by counsel  
for the Plaintiff in the above-entitled matter,  
pursuant to notice, the witness being duly sworn  
by CATHERINE S. BOYD, a Notary Public in and for  
the District of Columbia, taken at the offices of  
K&L Gates LLP, 1601 K Street, N.W., Washington,  
D.C. 20006-1600, at 9:57 a.m., Tuesday, December  
12, 2011, and the proceedings being taken down by

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1 Stenotype by CATHERINE S. BOYD and transcribed  
2 under her direction.

3 APPEARANCES:

4 On behalf of the Plaintiff:

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1 ALSO PRESENT:  
2 DAN REIDY  
3 VIDEOGRAPHER  
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3 ANDREW S. RECKLES PLAINTIFF DEFENDANTS

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## PROCEEDINGS

THE VIDEOGRAPHER: This begins Tape 1 of the video deposition of Andrew Reckles.

This is taken by the Plaintiff in the matter of the SEC versus Mannion, filed in the U.S. District Court for the Northern District of Georgia, the Atlanta Division, Case No. 110-cv-03374-WSD.

Today's deposition is being held at the law offices of K&L Gates, LLP, 1601 K Street, Washington, D.C. 20006.

For identification purposes, my name is Dan Reidy, the video operator.

The court reporter is Kathy Boyd, and we both represent Alderson Court Reporting.

Today's date is December 13th, 2011. The time on the video is 9:57 a.m.

We are on the record. At this time, will all counsel please introduce yourself and who you represent, starting with Plaintiff's counsel, please?

MR. WILLIAMS: Good morning -- David

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Williams and Adam Aderton for the Plaintiff Securities and Exchange Commission.

MS. LAMBRACOPOULOS: Good morning -- Stavroula Lambrakopoulos of K&L Gates, together with Matt Bowman and Adam Pollet here on behalf of the Defendant as well as the Defendant Andrew Reckles, who is the witness here today.

THE VIDEOGRAPHER: Would the court reporter please swear in the witness? Whereupon,

ANDREW S. RECKLES, was called as a witness by counsel for Plaintiff, and having been duly sworn by the Notary Public, was examined and testified as follows:

## EXAMINATION BY COUNSEL FOR PLAINTIFF

BY MR. WILLIAMS:

Q. Good morning, Mr. Reckles.

A. How are you?

Q. Good. My name is Dave Williams, and as I just said, I represent the Plaintiff in this case.

And we have asked you to come here

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today to answer a few of our questions as part of the litigation.

Is that okay?

A. Yeah.

Q. Okay. And have you ever sat for a deposition in a civil case before, sir?

A. Yes.

Q. Okay. Good. So you're going to be a little bit more familiar with the procedure than you otherwise would be, but let me cover a few ground rules before we get started substantively just so, just so we're clear, okay?

A. Sure.

Q. You're, you're under oath here today. I'm going to be asking you questions, and when I ask you a question, from time to time, I'll ask questions that are objectionable for whatever reason, and accordingly, your counsel may from time to time propound objections to my questions.

That said, because there's no judge here today to rule on the objections, they will be preserved for the record, so you are, you

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should feel free to continue to answer a question even after your counsel has objected to the question.

Do you understand that?

A. Sure.

Q. And the only time that you don't answer a question is if your counsel directs you not to answer the question.

Do you understand that?

A. Yes, sir.

Q. Okay. And as you see, there's a videographer taping your testimony, and you see to my left is a court reporter who will be transcribing everything that's said here today.

And in order for the record to be clear, I would ask you to wait until I finish asking my question before you respond, and I'll try to extend you the same courtesy, allow you to finish your answer before I ask my next question.

Is that fair?

A. Absolutely.

Q. Okay. And is there any reason, are you

<p style="text-align: right;">Page 10</p> <p>1 on any medication or is there any reason why you</p> <p>2 can't testify truthfully and completely here</p> <p>3 today?</p> <p>4 A. The medication I take wouldn't cause</p> <p>5 that, any, any problem.</p> <p>6 Q. So it wouldn't cause you any problem?</p> <p>7 A. No.</p> <p>8 Q. Okay. Mr. Reckles, can you please</p> <p>9 describe your educational background past high</p> <p>10 school?</p> <p>11 A. Some college, many certifications, and</p> <p>12 a variety of different business and negotiating</p> <p>13 techniques from a variety of different colleges</p> <p>14 and universities.</p> <p>15 Q. Any, any degrees?</p> <p>16 A. No degrees.</p> <p>17 Q. Okay. After, after school, what</p> <p>18 profession did you go into?</p> <p>19 A. Sales.</p> <p>20 Q. Okay. What sort of sales?</p> <p>21 A. Well, at what age are you asking?</p> <p>22 Q. I want to get sort of a feel for your</p>	<p style="text-align: right;">Page 12</p> <p>1 products, 65.</p> <p>2 I've got like ten. Who knows?</p> <p>3 Q. Okay.</p> <p>4 A. It's been 20 years.</p> <p>5 Q. Fair enough. So the various licenses</p> <p>6 that, that you obtained, they pertained to the</p> <p>7 financial markets or being a broker-dealer, or</p> <p>8 something else?</p> <p>9 A. All of the above.</p> <p>10 Q. Okay. And you indicated you began</p> <p>11 working for a financial services firm.</p> <p>12 What firm was that?</p> <p>13 A. I don't remember the first one.</p> <p>14 Q. Okay. And what, what capacity were you</p> <p>15 in when you first started working within</p> <p>16 financial services?</p> <p>17 A. Broker.</p> <p>18 Q. Okay. And that was in the early</p> <p>19 nineties I think?</p> <p>20 A. Um-hm.</p> <p>21 Q. And how long were you a broker?</p> <p>22 A. Gosh, until '96, '97. I guess to some</p>
<p style="text-align: right;">Page 11</p> <p>1 background, sort of after your, your education.</p> <p>2 So did you attend college directly</p> <p>3 after high school?</p> <p>4 A. Yeah, absolutely. I also worked</p> <p>5 directly and during high school.</p> <p>6 Q. Where did you work?</p> <p>7 A. I worked in electronics sales.</p> <p>8 Q. Okay. And did there come a point where</p> <p>9 you began working in the financial sector?</p> <p>10 A. Yes.</p> <p>11 Q. And when did that happen?</p> <p>12 A. I seem to recall like 1992-ish.</p> <p>13 Q. And how did you start in the financial</p> <p>14 sector?</p> <p>15 A. Went to work for a financial services</p> <p>16 firm, was required to get a series of different</p> <p>17 licenses, which I did, and began working with</p> <p>18 them in '92 or '93.</p> <p>19 Q. Okay. What sorts of licenses did you</p> <p>20 obtain?</p> <p>21 A. Let's see. At first, a Series 6 and a</p> <p>22 63, then a 7, a 3 -- 7, 3, variable insurance</p>	<p style="text-align: right;">Page 13</p> <p>1 extent, as long as you're selling securities,</p> <p>2 whether it be to institutions or to individuals,</p> <p>3 you're a broker to some extent, so I mean to this</p> <p>4 day, I guess you could consider that I'm still a</p> <p>5 broker.</p> <p>6 Q. Okay. And in '96 or '97, where did you</p> <p>7 go employment-wise?</p> <p>8 A. Oh, in '96 or '97, I was with J.W.</p> <p>9 Genesis? Were they Genesis yet? Maybe not.</p> <p>10 C.W. Charles, they got bought by</p> <p>11 another firm and became J.W. Genesis.</p> <p>12 I don't remember exactly what point in</p> <p>13 the late nineties that happened.</p> <p>14 Q. And that was a broker-dealer?</p> <p>15 A. Yes.</p> <p>16 Q. And what were you doing for that firm?</p> <p>17 A. We were, I was involved in</p> <p>18 institutional private placements.</p> <p>19 Q. What's an institutional private</p> <p>20 placement?</p> <p>21 A. Really? Okay. It is the private</p> <p>22 placement of securities to a variety of</p>

<p style="text-align: right;">Page 14</p> <p>1 definitionally, by definition, institutional</p> <p>2 clients in public or private companies.</p> <p>3 Q. Okay. And how long were you doing</p> <p>4 that?</p> <p>5 A. Still am.</p> <p>6 Q. I see. Were you with, with the firm</p> <p>7 J.W. -- what was the firm? J.W.?</p> <p>8 A. It was either Charles or Genesis,</p> <p>9 depending on the point in time you're asking</p> <p>10 about.</p> <p>11 Q. I see. Either J.W. Charles or J.W.</p> <p>12 Genesis, how long were you with that firm?</p> <p>13 A. From '94-ish to 2000 when they were</p> <p>14 purchased by First Union Bank.</p> <p>15 Q. And when they were purchased by First</p> <p>16 Union Bank, what did you do professionally?</p> <p>17 A. Opened my own firm. Chose not to move</p> <p>18 to Charlotte and work for a large bank.</p> <p>19 Q. And what was the name of that firm?</p> <p>20 A. HPC Capital.</p> <p>21 Q. And did you open that firm by</p> <p>22 yourself --</p>	<p style="text-align: right;">Page 16</p> <p>1 that changed?</p> <p>2 A. Yeah.</p> <p>3 Q. And when was that?</p> <p>4 A. Gosh -- end of '09 maybe? Sound about</p> <p>5 right?</p> <p>6 Q. Okay. And what did you do at that</p> <p>7 point?</p> <p>8 A. Went to work with -- I replaced my</p> <p>9 license with a, a broker-dealer called Moody</p> <p>10 Capital and started building my own brand of</p> <p>11 investment bank underneath that umbrella, which</p> <p>12 we're doing today.</p> <p>13 Q. So the firm that you're with today is</p> <p>14 called Moody?</p> <p>15 A. Actually the firm I'm with is called</p> <p>16 Intellivest Capital, Intellivest Securities. I</p> <p>17 don't -- it's probably Securities Capital.</p> <p>18 And the firm that I own or the brand</p> <p>19 that we're allowed to operate under is C4</p> <p>20 Capital.</p> <p>21 Q. So you mentioned a firm called Moody,</p> <p>22 Moody Capital?</p>
<p style="text-align: right;">Page 15</p> <p>1 A. No.</p> <p>2 Q. -- or with partners?</p> <p>3 A. With partners.</p> <p>4 Q. Who were your partners?</p> <p>5 A. Paul Mannion.</p> <p>6 Q. Anyone else?</p> <p>7 A. Well, there was Vince Sbarra, but I</p> <p>8 don't think he was actually a partner in the firm</p> <p>9 at that time.</p> <p>10 I think he was an employee of the firm.</p> <p>11 Q. And what did HPC Capital do?</p> <p>12 A. Private placements, institutional</p> <p>13 private placements for public and private</p> <p>14 companies.</p> <p>15 Q. And how long did you work for HPC</p> <p>16 Capital?</p> <p>17 A. From its inception until -- I can't</p> <p>18 remember if it was '08 or '07 when I resigned.</p> <p>19 Q. And when you resigned from HPC Capital,</p> <p>20 what did you do?</p> <p>21 A. Nothing for a while.</p> <p>22 Q. Okay. And did there come a point where</p>	<p style="text-align: right;">Page 17</p> <p>1 A. Yeah.</p> <p>2 Q. And is that the same as Intellivest?</p> <p>3 A. No. No. When I was transitioning back</p> <p>4 into the industry -- I took a, I took a year off.</p> <p>5 Q. Okay.</p> <p>6 A. And I believe there's a rule that if --</p> <p>7 you have to have your license somewhere. If you</p> <p>8 don't have it with the broker-dealer for some</p> <p>9 period of time, I can't remember if it's two</p> <p>10 years or 18 months, it goes defunct and you've</p> <p>11 got to re-test, and that's an awful lot of</p> <p>12 licenses and an awful lot of tests, so I didn't</p> <p>13 want to go re-do it.</p> <p>14 Q. I see. So you went for, went back with</p> <p>15 Moody Capital for a period of time --</p> <p>16 A. Um-hm.</p> <p>17 Q. And then you went to Intellivest?</p> <p>18 A. Yes, which is where I am now and have</p> <p>19 been there since February, March of this year.</p> <p>20 Q. I see. And so under the umbrella of</p> <p>21 Intellivest --</p> <p>22 A. Um-hm.</p>

<p style="text-align: right;">Page 18</p> <p>1 Q. -- you, you were with a firm called C4 2 Capital? 3 A. Right. It's our own brand. 4 Q. And who do you operate that with? 5 A. My partner, J.T. Schroeder. 6 Q. Anyone else? 7 A. No. 8 Q. And what does C4 Capital do? 9 A. We do institutional private placements 10 for public and private companies. 11 Q. Any other sort of work? 12 A. No. No. 13 Q. Okay. Have you heard of a fund called 14 Palisades? 15 A. Sure. 16 Q. And when did you first hear of a fund 17 called Palisades? 18 A. When I invented it. 19 Q. And when did you invent it? 20 A. 2001. 21 Q. And did you invent it with -- by 22 yourself, or with someone else?</p>	<p style="text-align: right;">Page 20</p> <p>1 corporation. 2 Q. And what was the management company? 3 A. PEF Advisors. 4 Q. And were you one of the principals of 5 PEF Advisors? 6 A. I was one of the general partners, yes. 7 That would be correct. 8 Q. Okay. And you indicated that there 9 were on-shore and off-shore components. 10 What was the on-shore component called, 11 if you recall? 12 A. That was called -- I don't recall. 13 Q. You don't recall? 14 A. I don't recall. 15 Q. Fair enough. Let me show you a 16 document -- 17 A. I'm sure it's probably in some document 18 you sent me. 19 MR. WILLIAMS: Sure. Let me ask the 20 court reporter to label this document as Exhibit 21 No. 35. 22 (Exhibit No. 35</p>
<p style="text-align: right;">Page 19</p> <p>1 A. No. It was, it was formed in 2001 by 2 myself and Paul Mannion were the two founding 3 principals. 4 Q. Okay. And was there a, a structure of 5 the fund? 6 And describe for me if the structure of 7 the fund changed as time went on. 8 A. I don't really quite understand what 9 you mean. 10 That, that could have a lot of 11 meanings. 12 So if you could be more specific, that 13 would be helpful. 14 Q. Sure. Was it a partnership, or some 15 other sort of entity? 16 A. Well, the management company was a 17 partnership. 18 There was a, an on-shore component to 19 the fund that if memory serves me, was an LP, so 20 that would be a partnership. 21 And there was an off-shore component to 22 the fund, and I seem to recall that that was a</p>	<p style="text-align: right;">Page 21</p> <p>1 was marked for 2 identification.) 3 BY MR. WILLIAMS: 4 Q. And document No. 35 appears to be a 5 multiple page document Bates number 6 SEC-MANNION0301555 through 1590. 7 It appears to be a confidential 8 offering memorandum for the Palisades Equity 9 Fund, L.P. 10 What is the Palisades Equity Fund, LP? 11 A. I think that would be the answer to the 12 question you asked me prior to handing me the 13 exhibit. 14 So that would be the on-shore 15 component. 16 Q. Okay. And let me ask you have you ever 17 seen this document before? 18 A. I'm sure I have. 19 Q. Okay. To the best of your 20 recollection, did you play a role in the drafting 21 or preparation of this document? 22 A. Not really.</p>



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1 Q. How did this document, if you know,  
2 come to be drafted?

3 A. I really couldn't speculate. It needs  
4 to be, it needed to be drafted in order to raise  
5 capital for the fund, so -- or invest our own  
6 capital for the fund.

7 You have to invest pursuant to some set  
8 of terms, if you will. It was drafted by  
9 counsel, so --

10 Q. Did you, the best of your recollection,  
11 the best of your recollection, provide input on  
12 the type of, the sorts of information that would  
13 be included in this document?

14 A. You know, I can't recall specifically.  
15 I would speculate that I probably had some  
16 oversight or, or input into some aspects, but --

17 Q. Given your role, it's likely, but as  
18 you sit here today, you can't recall?

19 A. I can't recall specifically.

20 Q. Okay. Was there a particular  
21 investment structure that Palisades employed?

22 A. I mean at the time that the fund was

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1 created, the, the strategy that has been deemed  
2 subsequently a PIPE fund strategy did not exist.

3 So today, in hindsight, one could say  
4 that it was a quote, unquote, PIPEs fund.

5 At the time of its inception, it was  
6 just a fund that invested in private placements  
7 into public companies.

8 So in answer to your question, it's  
9 really a point in time question, that, you know,  
10 at inception?

11 No, not particularly. We had a  
12 particular group of investments that we would  
13 choose to make.

14 Now it's called a PIPE fund ten plus  
15 years after inception, but the industry has  
16 changed.

17 Q. What is a PIPE?

18 A. Private investment into a public  
19 equity.

20 Q. Okay. And as I think you indicated,  
21 that's the type of investment that Palisades  
22 participated in?

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1 A. Yes.

2 Q. Okay. And did Palisades participate in  
3 any other sorts of investments?

4 A. Generally, no.

5 Q. How was it determined which particular  
6 private investments that Palisades would make?

7 A. It's been a long time. You know, I, I  
8 really can't recall. I really can't recall.

9 Q. As between you and your partner,  
10 Mister, Mr. Mannion --

11 A. Um-hm.

12 Q. -- was one or the other of you  
13 responsible for making, for choosing investments,  
14 or both?

15 A. I think that, I think that it was a, it  
16 was a joint, to my recollection anyway, it was a  
17 joint event.

18 However, we were a small shop. There  
19 was just effectively the two of us, and so from  
20 time to time, I guess there would be investments  
21 that may get more attention from one partner than  
22 another.

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1 But I think generally, investments  
2 were, were, were made at the kind of joint  
3 agreement of the two, the two partners.

4 Q. I see.

5 A. If that makes any sense to you.

6 Q. Sure. Other than yourself and Mr.  
7 Mannion, did anyone else participate in the  
8 investment decisions of the fund?

9 A. You know, we had a, we had a head of a,  
10 a chief advisor, Tom Shields, who we met with or  
11 spoke to frequently.

12 He probably came to the office at least  
13 once a month. He lived in Atlanta.

14 He didn't have decision-making  
15 authority.

16 It was an advisor, you know, but you  
17 know, he was a smart guy, having been the chief  
18 investment officer of Invesco Global, so we took  
19 a lot of what he said to heart.

20 Q. Okay. And Mr. Shields, his role was  
21 advisor?

22 A. Just an advisory, an advisory board

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1 member.  
 2 Q. How about trading activity at the  
 3 Palisades?  
 4 Did do any trading in stock?  
 5 A. Just generally the disposition of --  
 6 maybe we should put a sign up.  
 7 MS. LAMBRAKOPOULOS: Just give me five.  
 8 MR. WILLIAMS: Why don't we just go off  
 9 the record?  
 10 THE VIDEOGRAPHER: We're going off the  
 11 record.  
 12 The time on the video is 10:16 a.m.  
 13 (A discussion was held off the record.)  
 14 THE VIDEOGRAPHER: We're back on the  
 15 record.  
 16 The time on the video is 10:17 a.m.  
 17 BY MR. WILLIAMS:  
 18 Q. Mr. Reckles, I believe my question to  
 19 you was did Palisades do any trading activity?  
 20 A. Thanks. Yeah, mostly the disposition  
 21 or the sale of the underlying securities or the  
 22 securities that were purchased pursuant to a

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1 broad placement.  
 2 Q. And, and who was responsible for, for  
 3 that trading?  
 4 A. It would depend on at what point in the  
 5 life of the fund that you, that you're referring  
 6 to.  
 7 Q. Well, well, who was responsible? And  
 8 explain if it changed during the period.  
 9 A. Okay. So at the early stages, it was a  
 10 small fund with very cheap positions, and the  
 11 trading could be managed pretty effectively by  
 12 Mr. Mannion or by myself. I mean either one of  
 13 us could do it.  
 14 That continued throughout the life of  
 15 the fund. We had the authority to trade on  
 16 behalf of the fund.  
 17 As the fund got larger, had more  
 18 positions to manage, and required more of our  
 19 individual time in other areas such as diligence  
 20 or, or interfacing with the limited partners or  
 21 capital raising, what have you, we went out and  
 22 hired a trader to manage the trading book of the

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1 fund.  
 2 So I can't recall point in time, or  
 3 date in time when Mr. Batista came in, but I  
 4 would hazard to guess some time in early '05,  
 5 maybe late '04.  
 6 Q. Okay. And Mr. Batista, is that David  
 7 Batista?  
 8 A. Um-hm.  
 9 Q. And was he --  
 10 A. Yes.  
 11 Q. -- was he a trader for the fund?  
 12 A. He acted as the trader for the fund.  
 13 Q. And how would Mr. Batista know when to  
 14 trade securities?  
 15 A. Well, we gave him pre-defined  
 16 parameters on the positions themselves, and we  
 17 would speak or e-mail with Mr. Batista  
 18 frequently.  
 19 Q. And would he communicate the trading  
 20 activity that he did on a daily basis?  
 21 A. Let me, let me, let me ask you to ask  
 22 that a different way because it seemed like you

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1 were implying that we were trading on a daily  
 2 basis, and we, we weren't an actively -- we  
 3 didn't have that type of fund.  
 4 Q. Okay.  
 5 A. So I would answer that question when  
 6 there were positions that were being traded,  
 7 David would report the trades to us as he made  
 8 them.  
 9 Q. The day of the trade?  
 10 A. The day of the trade.  
 11 Q. Okay. One thing you mentioned --  
 12 A. To my, to my recollection. I mean it  
 13 may be the following morning in some cases,  
 14 but --  
 15 Q. Fair enough. One thing you mentioned  
 16 was that one of the, one of the responsibilities  
 17 that Mr. Mannion took on as the fund progressed  
 18 was interfacing with limited partners.  
 19 And my first question, what's a limited  
 20 partner?  
 21 A. They would have been one of the, the  
 22 investors in the fund.



<p style="text-align: right;">Page 30</p> <p>1 Q. And when you say interfacing with the</p> <p>2 limited partners, what do you mean?</p> <p>3 A. Taking their phone calls, answering</p> <p>4 their questions, managing the relationships with</p> <p>5 those individuals. Excuse me.</p> <p>6 Q. And, and your view was that as between</p> <p>7 yourself and Mr. Mannion, that was Mr. Mannion's</p> <p>8 responsibility?</p> <p>9 A. I think that -- and you've met Mr.</p> <p>10 Mannion, and he was better suited for that role.</p> <p>11 I don't think, in answer to your</p> <p>12 question, and, and maybe I'd like you to kind of</p> <p>13 repeat the question back. I don't think it would --</p> <p>14 MS. LAMBRACOPOULOS: Do you want him to</p> <p>15 repeat it back?</p> <p>16 THE WITNESS: Yeah. Why don't you</p> <p>17 repeat it exactly like you stated it? Because it</p> <p>18 was your wording that --</p> <p>19 BY MR. WILLIAMS:</p> <p>20 Q. Sure. And if the question suggests</p> <p>21 something that's not entirely accurate --</p> <p>22 A. Yeah.</p>	<p style="text-align: right;">Page 32</p> <p>1 offices that said Paul, you do this, this and</p> <p>2 this, and Andy, you do this, this and this.</p> <p>3 But when you work with someone for 14</p> <p>4 years, you get to know their strengths and their</p> <p>5 weaknesses. He knew mine. I knew his.</p> <p>6 Furthermore, the original investors</p> <p>7 outside of myself and Mr. Mannion were</p> <p>8 relationships of his. They were within his</p> <p>9 circle.</p> <p>10 And so it seemed clearly more prudent</p> <p>11 for Paul to be interfacing with people that he</p> <p>12 already was friends with or acquaintances with</p> <p>13 than somebody that wasn't.</p> <p>14 And as the fund grew and those people</p> <p>15 referred their friends to us, there was a nexus</p> <p>16 of relationships between the additional referral</p> <p>17 source and the next guy, and that was Paul.</p> <p>18 So it just, it just grew into a role</p> <p>19 that I think that he managed and managed well.</p> <p>20 Q. Okay. And were there areas in which</p> <p>21 you had primary responsibility?</p> <p>22 A. Sure. So I, I was always best at</p>
<p style="text-align: right;">Page 31</p> <p>1 Q. -- feel free to point that out. I'm</p> <p>2 not trying to --</p> <p>3 A. No. I understand.</p> <p>4 Q. I just want to know when you say that</p> <p>5 Mr. Mannion -- the question now escapes me.</p> <p>6 A. Yeah.</p> <p>7 Q. But you indicated that Mr. Mannion's</p> <p>8 role was interfacing with limited partners.</p> <p>9 So was it your perception that as</p> <p>10 between yourself and Mr. Mannion, Mr. Mannion was</p> <p>11 the one who had responsibility for dealing with</p> <p>12 the limited partner?</p> <p>13 A. That's close to how you asked it</p> <p>14 before.</p> <p>15 My -- it wasn't a perception. It was a</p> <p>16 bifurcation of responsibilities.</p> <p>17 So he was better suited for it. His</p> <p>18 personality was better suited for it.</p> <p>19 Q. So it wasn't sort of an informal thing?</p> <p>20 It was an actual formal bifurcation?</p> <p>21 A. I would say it like this. There was no</p> <p>22 job description board or file in the Palisades</p>	<p style="text-align: right;">Page 33</p> <p>1 structuring transactions, working with the</p> <p>2 companies, working with co-investors.</p> <p>3 That was pretty much my responsibility</p> <p>4 for the seven years, six years that the fund was</p> <p>5 around? Seven years?</p> <p>6 Q. And can you describe for me, if you can</p> <p>7 describe for me generally, how the fund marketed</p> <p>8 itself to, to potential investors?</p> <p>9 A. Well --</p> <p>10 MS. LAMBRACOPOULOS: Objection as to</p> <p>11 form.</p> <p>12 BY MR. WILLIAMS:</p> <p>13 Q. Potential limited partners.</p> <p>14 A. I wouldn't say that we marketed. There</p> <p>15 was no proactive effort to market.</p> <p>16 We, we published our, our results in a</p> <p>17 variety of just data bases.</p> <p>18 We, we didn't, as far as I can recall,</p> <p>19 and again, not my, not my side of the bifurcation</p> <p>20 of the responsibilities, we didn't ever go out</p> <p>21 and hire a third party marketer, which many</p> <p>22 people do.</p>

1 We, we did it kind of the hard way. We  
2 put in our own capital. We invested that  
3 capital. We generated a track record.

4 The track record was I guess good  
5 enough that other people were attracted to it,  
6 and over the course of time, the fund grew.

7 It wasn't like today where you read  
8 about all these guys go out and they get a  
9 billion dollars in 15 minutes.

10 It was hard work, and it took years to,  
11 to build the fund.

12 I don't know how the guys do it today.  
13 It's crazy.

14 Q. And you indicate that you published  
15 your results in the various publications.

16 What publications?

17 A. I don't recall the names specifically.  
18 There were a bunch of databases, and those  
19 databases are still out there today.

20 Q. And by your results, I take it you mean  
21 the returns that the fund generated, or something  
22 else?

1 A. That -- yeah, performance, returns for  
2 the, for the on-shore fund initially, and then  
3 when the off-shore fund was created, for both.

4 Q. So publication of the, the returns of  
5 the fund was, was the extent of, of a marketing  
6 effort?

7 A. Yeah. I think that that's, that's  
8 fair.

9 I think there was a lot of  
10 referral-based, you know, marketing, if you will.

11 I mean marketing, that's not even a  
12 good word.

13 Money came in via referral, you know.  
14 I mean we had some, some folks in there early  
15 with us that were astute and well respected in  
16 the financial community.

17 And after time and performance, they  
18 referred it to people they knew, and then, of  
19 course, after having your, your returns posted in  
20 databases, people start calling and requesting  
21 information and things of that nature, so --

22 Q. I see. And so when people called and

1 requested information, what, what, if anything,  
2 would they be provided?

3 A. I didn't actually deal with any of it.

4 Q. Okay.

5 A. So I really couldn't tell you.

6 Q. Okay. That was more Mr. Mannion's  
7 side?

8 A. Yes.

9 Q. I see. And with respect to these  
10 returns, how often did the fund calculate its  
11 returns?

12 A. Monthly.

13 Q. And how did the firm calculate its  
14 returns on a monthly basis, to the best of your  
15 recollection?

16 A. I'm, I'm sorry. That's a very vague  
17 question.

18 Q. Was there a process that the firm used  
19 to determine what its returns were?

20 A. I'm sorry. When you said how, it's  
21 like we used an abacus. Sorry.

22 Was there a process? Sure. I mean in

1 here, in this Exhibit No. 35, there is a litany  
2 of pages, to my recollection, that talk about  
3 what we invested and how we, we deal with the  
4 valuation of whatever might be in our portfolio.

5 And of course, we had an administrator  
6 to the fund whose responsibility from -- was, was  
7 to oversee and to, and to create those valuations  
8 on a monthly basis, and to represent that those  
9 valuations were I guess accurate.

10 Q. Okay. And you mentioned an  
11 administrator.

12 Who was the administrator for the fund?

13 A. Again, it would depend on a point in  
14 time.

15 For the, for the vast majority of the  
16 term of the fund, and I think during the term of  
17 why we're all here, it would be Beacon Fund,  
18 Beacon Fund Advisors? Beacon Fund Services?

19 Q. And --

20 A. I can't recall what the Beacon date  
21 sets.

22 Q. Dave, Dave Sims was your point of

1 contact?

2 A. He was the head of the firm. We had a  
3 variety of points of contact through the years,  
4 staff accountants or what have you.

5 Q. And the role of the administrator, at  
6 least in regard to the monthly, the valuations,  
7 was, was what?

8 A. Well, my, my understanding of their  
9 roles and responsibilities were to take the  
10 assets of the fund at the end of every month,  
11 apply the, the valuation policies that were in  
12 writing to that book of, or that pool of assets,  
13 and when there were issues potentially between  
14 what, what existed in the portfolio and how it  
15 needed to be valued, they were the adjudicator of  
16 I guess of that decision.

17 Q. And, and how would they know whether  
18 there were issues?

19 I mean what do you mean?

20 A. Well, the valuation process, as I  
21 recall, and I had almost nothing to do with it  
22 from inception of the fund forward, was a lengthy

1 one every month.

2 It was a 15 or 20-day process whereby  
3 we were inundated back and forth with e-mails  
4 from the administrator and just verifying that  
5 this is the position that you hold, these are the  
6 trades you did in the month, et cetera, et  
7 cetera.

8 And this is a fund that, unlike -- and  
9 I think that this is an important thing for --  
10 and I know you guys, for all the folks at home --  
11 to understand that this wasn't a mutual fund,  
12 that this wasn't like daily trading with liquid  
13 stocks of IBM.

14 This was a fund that was invested in  
15 securities that were illiquid for great periods  
16 of time based on the registration statements of  
17 the underlying securities.

18 And so valuation and how things were  
19 valued every month was based on certain  
20 parameters that were in writing, but there, there  
21 was also the need to be flexible and to have  
22 discretion over those parameters when situations

1 arose, and from time to time, those situations  
2 arose over the life of the fund, and those were  
3 the things that Paul and the administrators, and  
4 to a lesser extent, I would work with during the  
5 months where we had to work with them.

6 Q. Okay.

7 A. Sometimes it was very cut and dry.  
8 Sometimes it wasn't.

9 Q. Okay. And you seemed to be suggesting,  
10 correct me if I'm wrong, that Mr. Mannion had a  
11 greater degree of involvement in that process  
12 than yourself?

13 A. That -- I would, I would absolutely say  
14 that.

15 Q. And what was, what was Mr. Mannion's  
16 role in that process?

17 A. Well, he interfaced directly with the  
18 administrators, and then on an annual basis, with  
19 the auditors when it came time to audit the fund.

20 So his roles at the fund, from my  
21 chair, were I think mainly the monthly  
22 valuations, working with the administrators, and

1 working with the auditor at the end of the year  
2 during the audit, and then interfacing the LPs  
3 and, and things like that, as I've already  
4 testified to.

5 And mine was working on new  
6 transactions and working with transactions that  
7 we were already in where there may be challenges  
8 with registration or additional capital or  
9 working with co-investors on a capital range or  
10 what have you, and that we had full-time jobs  
11 with each of those.

12 MR. WILLIAMS: I show you a document  
13 that I'm going to ask the court reporter to label  
14 as Exhibit No. 36.

15 (Exhibit No. 36  
16 was marked for  
17 identification.)

18 BY MR. WILLIAMS:

19 Q. And I'll represent to you that --

20 A. Thank you.

21 Q. Exhibit No. 36 is a one-page document  
22 Bates number SEC-MANNION0049475.

<p style="text-align: right;">Page 42</p> <p>1 And it appears to be an e-mail 2 communication; subject, Re: August NAV queries. 3 My first question to you, Mr. Reckles, 4 is you have you seen this document before? 5 A. I don't believe so. 6 Q. Okay. Well, it appears to be a 7 response to NAV queries. 8 Did you, did you have the occasion to 9 receive queries on a monthly basis from someone 10 named Leslie at Beacon Securities? 11 A. I'm sorry. Would you say that again? 12 Q. Yeah. Did you have occasion to receive 13 monthly queries with respect to NAV calculations 14 from someone named Leslie at Beacon Securities? 15 A. Les, yeah. It's a, it's a guy. 16 Q. Les, okay. 17 A. Yeah. 18 Q. And would Les send you e-mails on a 19 monthly basis -- 20 A. Um -- 21 Q. -- asking about various positions? 22 A. Sorry. As I, as I testified, mostly,</p>	<p style="text-align: right;">Page 44</p> <p>1 to speculate, but I think it's a pretty decent 2 speculation that this is a photocopy of an e-mail 3 mail that had multiple people that were 4 responding on it, right? 5 So I think that that's Paul's notation, 6 that that's Paul's answer. 7 Q. I see. So some of the notations, by 8 your speculations, belong to Mr. Mannion, and 9 some of the responses belong to you? 10 A. No. I think -- I don't think any of 11 the responses belong to me. I think that -- 12 Q. Okay. 13 A. -- all of the responses belong to Paul 14 or to, or Les. 15 They're either questions from Les or 16 responses from Paul. 17 If you look, the answers are in dark, 18 right? There's two different type fonts here, so 19 based on the limited technical skills I have with 20 computers, it sure looks like he cropped and 21 pasted an e-mail and overlaid it, and then 22 answers.</p>
<p style="text-align: right;">Page 43</p> <p>1 mostly to Paul. 2 Occasionally, if there was a question 3 that Paul couldn't answer, specific, as I said, 4 my role and responsibilities were dealing with 5 the companies to a great degree, so if there was 6 a question about a pending registration 7 statement, the e-mail may come to me or get 8 forwarded to me and be asked to respond what is 9 the status of the registration with this 10 particular issue or what have you. 11 Generally, I would not have occasion to 12 interface with Les frequently. 13 Q. Okay. And as I look at this e-mail, 14 for, for the position listed under the No. 1, and 15 the position listed under No. 4 and No. 6 and No. 16 8 and 9, there appear to be in brackets Paul T. 17 Mannion, Jr. 18 Do you see that? 19 A. Yes. 20 Q. And why is Mr. Mannion's name bracketed 21 there, if you know? 22 A. Well, I, I would have to, I would have</p>	<p style="text-align: right;">Page 45</p> <p>1 Q. I see, but based on the signature line 2 at the bottom of the document, it appears to be 3 an e-mail that, that you authored? 4 A. Yeah. It looks like I sent it, but 5 it's -- as you can see from, from the document, 6 those are Paul T. Mannion. 7 So again, I said I was speculating, but 8 it seems to me that those were answers that he 9 provided to a list of queries. That's why he put 10 his name next to them. 11 Q. I see. And would you and Mr. Mannion 12 work together to respond to, to the monthly 13 queries? 14 A. Occasionally, occasionally, as I 15 testified to. 16 Q. Okay. And under subheading No. 5, with 17 respect to Perma-Fix, do you see, do you see that 18 part of the document? 19 A. Yes. 20 Q. And the question relates to when do 21 restricted shares at Citi become unrestricted to 22 cover the short sales?</p>



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1 And my question to you was was it the  
2 practice of Palisades to sell short securities --

3 A. Well --

4 Q. In about August of 2005?

5 A. I think I, I don't think that the  
6 question is a reasonable one. I think you have  
7 to --

8 Q. Why is that?

9 A. -- define whether you're shorting  
10 securities or whether you're shorting against the  
11 box.

12 They're very different things.

13 Q. Okay.

14 A. Very different things.

15 Q. What does it mean to short against the  
16 box?

17 A. So you're already long on a security.  
18 You own it outright or you own a derivation of  
19 the security, i.e., a convertible preferred stock  
20 or a convertible note.

21 You own the security, so in that  
22 circumstance, you're not actually shorting the

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1 stock.

2 You're just selling what you have.

3 Q. I see. And so when you say shorting  
4 against the box, what does shorting mean in that  
5 context?

6 A. It means a sale, so -- you know, and  
7 you folks over there at the SEC many years ago  
8 did some good work on this stuff.

9 I mean it was -- for many years, a lot  
10 of people were just selling and doing all sorts  
11 of funky stuff with their own securities or their  
12 convertibles, and you guys cleaned up that  
13 process, but in the old days, people were taking  
14 advantage of that.

15 What we did was if we owned a security,  
16 when it was effectively registered, you would  
17 sell via the open market, and you have a  
18 conversion of those shares.

19 And is it short exempt? Is that the  
20 term? I've forgotten. I haven't done this in  
21 four plus years, but I think the term was short  
22 exempt, so you're not --

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1 Q. Okay.

2 A. -- required to go get a predetermined  
3 borrow because you own the security, and you're  
4 selling, waiting on just -- that's not shorting.

5 Shorting to me is when you don't own  
6 any derivation of the security, and you have to  
7 go out and get, borrow, borrow the security.

8 I think that's the dispositive,  
9 dispositive from the -- I've forgotten all the  
10 terminology.

11 Q. I see. So a short would be if you, if  
12 you establish a short position when you didn't  
13 own a long position in the security?

14 A. I would, like I said, I would deem a  
15 short position to be one whereby you are going  
16 out and affirmatively, that's affirmatively  
17 borrowing the underlying shares from the third  
18 party just like they teach you in the Series 7  
19 manual, all right?

20 When you're short exempt, you already  
21 own it. You don't have to borrow from somebody,  
22 and that was some of the stuff that I believe the

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1 SEC worked on pretty diligently in '04 and '05,  
2 so that funds that were participating in private  
3 placements were able to dispose of shares without  
4 having to necessarily go find a pre-borrow.

5 They gave a short exempt period, and I  
6 think that that's what No. 5 question was talking  
7 about.

8 The shares are coming back from the  
9 transfer agent is what it says there, so --

10 Q. And so with respect to No. 5 there, the  
11 long position that would be coming unrestricted  
12 would be delivered to, to, to satisfy the short  
13 sale?

14 A. The long position would be coming from  
15 the transfer agent.

16 MR. WILLIAMS: Let me ask you about  
17 another document I'll ask the court reporter to  
18 label as Exhibit No. 37.

19 (Exhibit No. 37  
20 was marked for  
21 identification.)

22 BY MR. WILLIAMS:



1 Q. And Mr. Reckles, I'll represent to you  
2 that Exhibit No. 37 is a two-page document Bates  
3 number SEC-MANNION0044137 and 138.

4 And it appears to be a two-page  
5 document; subject, last few queries August NAV  
6 from Les at Beacon.

7 And my question to you, my first  
8 question to you is are you familiar with this  
9 document?

10 A. Am I familiar with it? Not really. I  
11 mean I'm sure -- it's been seven years, six  
12 years, so --

13 Q. Sure. But is there any reason, do you  
14 have any reason to think you didn't get this  
15 document in about September of 2005?

16 A. No. I have no reason to believe that I  
17 didn't.

18 Q. And the e-mail address in the to  
19 heading, Andyreckles@aol.com --

20 A. A-huh.

21 Q. -- was that an e-mail address that you  
22 used in about September 2005?

1 A. Yes.

2 Q. Okay. And how many, how many e-mail  
3 addresses did you have in about September 2005?

4 A. A few; probably three probably sounds  
5 about right.

6 Q. Okay. So there's this one, and do you  
7 recall any others --

8 A. Um --

9 Q. -- that you used?

10 A. Yeah. I had my own at PEF Advisors.

11 Q. Okay. How about one at --

12 A. HPC Capital, yeah.

13 Q. And were those the three primary e-mail  
14 addresses that you used?

15 A. Yes, to the best of my recollection.

16 Q. And would you check those on a daily  
17 basis?

18 A. Yeah. Yeah. That's, that's fair.

19 Q. Okay.

20 A. I'm surprised, to be honest with you,  
21 that Les would have sent it to  
22 Andyreckles@aol.com, but I mean that kind of

1 reinforces my statement earlier that Paul did  
2 most of the interfacing because he's sending it  
3 to Paul on fund business, and he didn't really  
4 work with me much on fund business.

5 So he's just got my -- that's my  
6 personal e-mail address. It's not even my fund  
7 e-mail address, and I have one, so --

8 Q. What's your fund e-mail address?

9 A. I think it was andy@pefadvisors.

10 Q. I see. And with respect to the last  
11 few queries there, there appears to be a  
12 reference to a side pocket.

13 What's a side pocket?

14 A. Are you asking me in general, or in  
15 specific, Dave?

16 Q. Specific with reference to what Les  
17 appears to be asking you about.

18 A. Okay. So as it relates to the side  
19 pocket created for the World Health assets, it  
20 was a segregation of some difficult to value  
21 assets in a particular issuer that I think  
22 subsequently became a C class or a new class of

1 shares within our fund.

2 That's what it was.

3 Q. And we looked at, we looked at Exhibit  
4 No. 35, which appears to be the offering  
5 memorandum for Palisades Equity Fund.

6 And was, was the, was the creation of a  
7 side pocket contemplated by the offering  
8 memorandum of Palisades Equity Fund, to the best  
9 of your recollection?

10 A. To the best of my recollection, no, not  
11 specifically.

12 Certainly there was the, the ability to  
13 do so.

14 Q. What do you mean?

15 A. Well, the managers had discretion to do  
16 quite a bit as it related to both valuation and  
17 to appropriately manage the fund.

18 Q. Okay. And so was there, did there come  
19 a point when you went to investors to, or limited  
20 partners to, to enlist their approval for the  
21 creation of the side pocket?

22 A. Absolutely.

1 Q. And why did you do that?

2 A. You know, I don't recall specifically.  
3 I believe it was a belt and suspenders type of  
4 issue for us.

5 I think without -- and I want to be  
6 sure that this isn't a privilege issue.

7 MS. LAMBRAKOPOULOS: Sure. And I would  
8 direct you to respond to the question only to the  
9 extent that you're not going to disclose anything  
10 that's privileged, any communications with your  
11 attorneys.

12 THE WITNESS: Okay. On advice of  
13 counsel, and in working with counsel, the side  
14 pocket was clearly something that I think from  
15 everyone's view in August of 2005 could be  
16 established, but that both disclosure and consent  
17 would be very, very good things to have, and  
18 that's why we did that.

19 BY MR. WILLIAMS:

20 Q. I see. And what, what, what was the  
21 security that was the subject of the side pocket?

22 A. There are a series of securities, all

1 from the same company.

2 Q. What company is that?

3 A. World Health -- sorry.

4 Q. And did there come to be a problem with  
5 World Health in about August of 2005?

6 A. Yeah. There, there was a large problem  
7 with the company.

8 Q. Okay. Prior to August of 2005, had  
9 Palisades invested in a private placement for  
10 World Health, or some other sort of investment?

11 A. Several.

12 Q. Several?

13 A. I'm sorry -- several private  
14 placements.

15 Q. Okay. And as of August of 2005, was  
16 World Health a significant position of Palisades?

17 A. Yes, sir.

18 Q. And do you recall approximately to what  
19 extent that Palisades's assets were, were World  
20 Health securities in various forms?

21 A. You know, I don't recall specifically,  
22 but a lot. It was significant.

1 Q. Okay. Was World Health the fund's  
2 largest investment in about August of 2005?

3 A. I would say that that would be true.

4 Q. I see. And how did the fund come to  
5 invest in World Health originally, if you recall?

6 A. Wow! You know, I don't.

7 Q. Okay.

8 A. I've really tried to move on, you know.

9 Q. Sure. Can you say whether or not it  
10 was something that Mr. Mannion had the lead on or  
11 whether it was something that you had the lead  
12 on?

13 Can you be that specific?

14 A. I, I would say that during the course  
15 of the, the time that we were invested in World  
16 Health, I had the larger responsibility and role  
17 in interfacing with the company, and structuring  
18 the investments.

19 I think that it would be fair to say  
20 that it would be me and not Mr. Mannion  
21 specifically.

22 Q. Okay. Who was the CEO of World Health

1 during the period of the fund's investments with  
2 the company?

3 A. Richard McDonald.

4 Q. And did you have a relationship with  
5 Mr. McDonald?

6 A. Did I have a relationship with him? I  
7 guess I had the same relationship that a lot of  
8 people did, which was a, a person that he could  
9 defraud and use very effectively.

10 Q. I see. So how did you come to meet Mr.  
11 McDonald?

12 A. Let's see. He was, I mean it was a, it  
13 was an opportunity to invest capital just like,  
14 you know, hundreds of others that we, we, we  
15 would see, you know at that point on an annual  
16 basis.

17 I can't remember how this particular  
18 company was introduced to me or to the fund.

19 Q. Okay. Okay. You indicated Mr.  
20 McDonald defrauded you.

21 How did Mr. McDonald defraud you?

22 A. You know, we're, we're, we've moved

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1 forward back to 2011, right? Because we were  
2 talking about 2005, so I just want to be sure  
3 because these are only things that I know today,  
4 as the result of six years worth of your work,  
5 you collectively, of the SEC, and the Justice  
6 Department and the bankruptcy trustee, and then a  
7 lot of other people.

8 So in 2004, 2005, and even into some of  
9 2006, this is just not stuff that I knew.

10 Q. Okay.

11 A. What I know now is that he broke a  
12 significant number of securities laws, stole  
13 money, that he, that he allegedly was trading  
14 shares of his own into the open market without  
15 disclosure. Didn't pay taxes.

16 I mean there's a whole slug of things  
17 here apparently that, allegedly that he did.

18 I don't know that he's gone to trial  
19 yet or not, but I know he did settle with the  
20 SEC.

21 Q. Okay. And so your, your statement  
22 that, that he defrauded you is, arises from your

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1 status as an investor with World Health, or from  
2 some other relationship?

3 A. That would be the only relationship  
4 that I had with him.

5 We were an investor in this company.

6 MR. WILLIAMS: Sure. Let me hand you  
7 another document that I'm going to ask the court  
8 reporter to label as Exhibit No. 38.

9 (Exhibit No. 38  
10 was marked for  
11 identification.)

12 BY MR. WILLIAMS:

13 Q. And Exhibit No. 38 is a multiple page  
14 document I'll represent to you was produced to us  
15 by your counsel.

16 It's the response of Defendant Andy S.  
17 Reckles to Plaintiff's first set of  
18 interrogatories to Defendant Andrew S. Reckles.

19 I'll ask you to turn to the, page 20 of  
20 the document.

21 A. Okay.

22 Q. And I'm going to ask you is this your

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1 signature?

2 A. Yes, sir.

3 Q. Okay. And the question I want to ask  
4 you about is this interrogatory No. 3, which  
5 begins on page 11 of the document.

6 A. Okay.

7 Q. And this question asks about various  
8 shares of stock in World Health deposited into a  
9 brokerage account at Westminster Securities on  
10 various dates throughout 2005 between February  
11 and August of 2005.

12 A. Um-hm.

13 Q. And my first question to you is did you  
14 have an individual brokerage account at  
15 Westminster Securities?

16 A. I believe I did, yes.

17 Q. Okay. And with respect to, to your  
18 response, there appear to be seven lettered  
19 inquiries there.

20 And with respect to the first six of  
21 those seven inquiries, your response, beginning  
22 in the first full paragraph of page 13, indicates

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1 that securities acquisitions identified in items  
2 (a) through (f) with an underlying warrant were  
3 issued by World Health to Defendant or PEF  
4 Advisors, Limited, PEF Advisors, LLC, of which  
5 Defendant is a general partner, as compensation  
6 for or in connection with investment banking or  
7 financing work performed by Defendant and Mr.  
8 Mannion on behalf of World Health.

9 My question to you is what investment  
10 banking or financing work did you do for World  
11 Health?

12 A. A tremendous amount, a tremendous  
13 amount -- arranging financing for the company,  
14 helped them locate, structure and finance the  
15 largest acquisition that the company made, which  
16 was a fantastic acquisition for the company, and  
17 the crown jewel of their assets, which is why --  
18 and which still exists today about four miles up  
19 the road from my house, doing gangbuster  
20 business.

21 Q. What's that?

22 A. Well, JC Nationwide was acquired by the

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1 company, and it was our, we introduced the  
2 company to JC Nationwide.

3 We financed it. We paid off the debt  
4 at JC Nationwide in order to make it clean for  
5 the acquisition -- a lot of work over the course  
6 of the relationship.

7 Q. Okay. So you had a relationship with  
8 World Health beyond, beyond just being an  
9 investor in the company, correct?

10 A. Yeah. I mean I think so. Initially,  
11 it was, it was acting as an investor, putting in  
12 capital, but over the course of time, it was  
13 helping tremendously to raise additional capital  
14 to help the company with its, with its business  
15 plan.

16 Q. Sure. And were the investments that  
17 Palisades made into World Health a part of the  
18 investment banking work that that you received  
19 compensation for?

20 A. Could you ask that again? I'm sorry.

21 Q. Yeah. Were the investments that  
22 Palisades made with World Health, were those

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1 investments a part of the investment banking work  
2 that you did for World Health?

3 A. Yeah, some.

4 Q. Okay.

5 A. Can you bear with me one second? I  
6 just want to re-read one thing.

7 Q. Sure. Sure.

8 A. I just -- we moved really fast and --

9 (The witness reviewed the document.)

10 MR. WILLIAMS: Why don't we go off the  
11 record?

12 THE WITNESS: Is that okay?

13 MR. WILLIAMS: Yeah. Take a break.

14 MS. LAMBRAKOPOULOS: Sure.

15 THE VIDEOGRAPHER: This completes Tape  
16 No. 1 of the deposition of Andrew Reckles. The  
17 time on the video is 10:54 a.m.

18 We are off the record.

19 (A recess was taken.)

20 THE VIDEOGRAPHER: This is begins Tape  
21 No. 2 in the video deposition of Andrew Reckles.

22 The time on the video is 11:08 a.m.

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1 We are on the record.

2 BY MR. WILLIAMS:

3 Q. Mr. Reckles, I had asked you some  
4 questions about Exhibit No. 38.

5 Was there something that you wanted to  
6 clarify?

7 A. Yeah. Thank you. So on page 13 of  
8 exhibit -- is this 38?

9 MS. LAMBRAKOPOULOS: Thirty-eight.

10 THE WITNESS: Yes. So it reads subject  
11 to and without waiving the general -- I'm sorry.

12 The first paragraph, first full  
13 paragraph of page 13, I'm not going to read it.

14 It, it, it states that in the shared  
15 deliveries discussed on pages 11 and 12 (a)  
16 through (f) are, and I quote, "...issued by World  
17 Health to Defendant, or PEF Advisors Ltd. or PEF  
18 Advisors LLC, of which Defendant is a general  
19 partner, as compensation for or in connection  
20 with investment banking or financing work..."

21 I just wanted to point out that that's  
22 correct on (a) through (e); (f) was actually

Page 65

1 500,000 shares that I owned that were purchased,  
2 paid for.

3 BY MR. WILLIAMS:

4 Q. Oh, I see.

5 A. They were not received in connection  
6 with.

7 They were received as a purchase.

8 Q. So those shares were received in  
9 connection with a purchase, an open market  
10 purchase --

11 A. No.

12 Q. -- or somebody's own purchase?

13 A. It was, it was a purchase of World  
14 Health convertible securities that PEF Advisors,  
15 I believe it was PEF, Limited, purchased in July  
16 or August of '05, and those were the underlying  
17 shares to that convertible security.

18 Q. I see. I see. So with respect to (a)  
19 through (e), in the statement the response is  
20 correct that these were --

21 A. Yes, sir.

22 Q. -- provided as compensation in



<p style="text-align: right;">Page 66</p> <p>1 connection with investment banking or financing 2 work? 3 A. Yes, sir. I just thought it would be 4 important to be very specific and clarify that. 5 Q. I appreciate that. 6 MS. LAMBRAKOPOULOS: And I'll be happy 7 to add a supplement or amend his interrogatory 8 answers just to have it here for the record. 9 THE WITNESS: I mean technically, you 10 could almost put it under financing work, but I 11 think it's slightly enough different that I felt 12 like I should put it on, on, you know, clarify it 13 for you. 14 BY MR. WILLIAMS: 15 Q. Fair enough. And subheading (e) -- 16 A. Yes. 17 Q. -- in reference to the 300 purported 18 unrestricted shares you received on July 25th, 19 2005, do you recall that, that share transfer? 20 A. Not specifically, no. 21 MR. WILLIAMS: Let me show you a 22 document, and I'm going to ask the court reporter</p>	<p style="text-align: right;">Page 68</p> <p>1 are what they are. I guess they're just another 2 investment fund. 3 Q. Okay. And did you bring Bristol 4 Investment Fund to a World Health investment? 5 A. They were a co-investor in -- I don't 6 recall if I brought them in or not. 7 Q. Okay. And this, this document appears 8 to be a "Waiver of Liquidated Damages and 9 Maturity Date Extension on Convertible 10 Debenture." 11 A. Okay. 12 Q. And my question is do you recall this 13 transaction? 14 A. I, I don't specifically, no. 15 MR. WILLIAMS: Okay. Let me ask you to 16 take a look at another document that I'll ask the 17 court reporter to label as Exhibit No. 40. 18 (Exhibit No. 40 19 was marked for 20 identification.) 21 BY MR. WILLIAMS: 22 Q. Exhibit No. 40 is multiple page</p>
<p style="text-align: right;">Page 67</p> <p>1 to label this document as Exhibit No. 39. 2 (Exhibit No. 39 3 was marked for 4 identification.) 5 BY MR. WILLIAMS: 6 Q. And Exhibit No. 39 is a multiple page 7 document Bates number SEC-MANNION0019098 through 8 SEC-MANNION19101. 9 A. Okay. 10 Q. My question to you is have you ever 11 seen this document before? 12 A. Boy, I don't recall it. 13 Q. Okay. 14 A. That doesn't mean that I haven't. I 15 just, I just don't recall. 16 Q. Okay. And can you, can you describe 17 for me what, what this -- it's a document 18 addressed to Palisades Master Fund and Bristol 19 Investment Fund. 20 And my question is what is Bristol 21 Investment Fund? 22 A. It's just another I guess fund. They</p>	<p style="text-align: right;">Page 69</p> <p>1 document Bates number SEC-MANNION0019102 through 2 9104. 3 This appears to be a letter also dated 4 July 19, 2005, related to a securities purchase 5 agreement dated May 17, 2005, among World Health 6 and the purchasers. 7 My question to you is do you recognize 8 this document? 9 A. I don't specifically, no, sir. 10 Q. And directing your attention to the 11 third page of the document, do you recognize your 12 signature on that page? 13 A. I do. 14 Q. Okay. And the first page of the 15 document indicates that WHAI -- I'm looking at 16 the last sentence of the first paragraph where it 17 says, "Accordingly, WHAI hereby agrees to issue 18 each of you 300,000 shares of common stock 19 simultaneously with the completion of the 20 Restructuring." 21 A. Okay. 22 Q. And the first sentence of that</p>



<p style="text-align: right;">Page 70</p> <p>1 paragraph, it refers to WHAI incurring liquidated 2 damages for failure to timely file a registration 3 statement for the purchasers in connection with 4 the SPA. 5 And my question to you is does 6 Exhibit 40 relate to Exhibit 39? 7 A. Does Exhibit 40 relate to -- I wouldn't 8 want to speculate to that being the case. I 9 mean -- 10 Q. Sure. 11 MS. LAMBRACOPOULOS: Take a minute and 12 read it. 13 THE WITNESS: Yeah. I would need more 14 than a minute to read all of this. 15 MS. LAMBRACOPOULOS: Well, take more 16 than a minute. 17 THE WITNESS: So -- 18 (The witness reviewed the document.) 19 THE WITNESS: I would, I would say yes. 20 That would be my, my, my, my -- in answer to your 21 question. 22 I think you asked was 40 relating to</p>	<p style="text-align: right;">Page 72</p> <p>1 to securities they've got outstanding with 2 multiple parties. 3 Q. Sure, but the, the, the purchasers are 4 waiving liquidated damages, correct? 5 A. And extending maturity of a piece of 6 debt. 7 Q. Right. So -- 8 A. I'm not sure what else there was. I 9 don't know if that was all. 10 You know, I'm not sure if that was all 11 that they were doing, but it looks like they were 12 amending the purchase agreement, the debentures, 13 the warrants, the reg rights agreements -- I'm 14 sorry -- reg, r-e-g. 15 It looks like there was quite a bit of 16 stuff that was being done there in paragraphs, 17 was that 3, 4 and 5 of Exhibit 39? 18 Q. Sure. 19 A. I don't have a great recollection of 20 any one thing from six, seven years ago, so -- 21 Q. Sure, but in connection with Exhibit 22 No. 40, can you explain to me why, why the shares</p>
<p style="text-align: right;">Page 71</p> <p>1 39. 2 BY MR. WILLIAMS: 3 Q. Yes, sir. 4 A. And I would say it would appear so. 5 Q. Appears to be? 6 A. It appears to be. 7 Q. And with respect to Exhibit No. 40, 8 again, going back to the first paragraph where it 9 says, "You have agreed to structure a transaction 10 with the Purchasers whereby they waive their 11 liquidated damages and extend the maturity date 12 of the debentures they own pursuant to the SPA." 13 And my question to you is if the 14 purchasers are waiving liquidated damages, why 15 are 300,000 shares going to you? 16 A. Well, we were restructuring, at least 17 it looks like here, they've got it in quotes, the 18 restructuring, we were restructuring a 19 significant amount of debt that was held by not 20 ourselves, but other people. 21 So it's investment banking work being 22 done specifically for the company, as it relates</p>	<p style="text-align: right;">Page 73</p> <p>1 were going to yourself and Mr. Mannion directly? 2 A. Well, they could have just as easily 3 gone to HPC Capital, which we were the owners of, 4 and then been bifurcated out 50/50, or they could 5 have just gone to us individually. 6 It's, from our perspective, six to one, 7 half dozen of the other. 8 Q. What I'm getting at is in connection 9 with purchasers waiving various rights that they 10 have, why wouldn't the consideration for the 11 waiver be going to the purchasers? 12 A. This was paid for the work being done 13 on behalf of the company with other investors, 14 not just Palisades, or not Palisades 15 specifically. 16 MR. WILLIAMS: Sure. Let me show you 17 another document, a one-page document that I'll 18 ask the court reporter to label as Exhibit No. 19 41. 20 (Exhibit No. 41 21 was marked for 22 identification.)</p>

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1 BY MR. WILLIAMS:  
 2 Q. And Exhibit No. 41 a one-page document  
 3 Bates number SEC-MANNION0016545; subject, post  
 4 effective, dated July 27, 2005.  
 5 It appears to be Andy Reckles to  
 6 someone named Rich at Better Solutions, Inc. and  
 7 rich@whstaff.com.  
 8 And my question to you is are you  
 9 familiar with this e-mail?  
 10 A. Only to the extent that you put it in  
 11 front of me.  
 12 I don't recall it.  
 13 Q. You don't recall it, but it appears to  
 14 be the e-mail you sent?  
 15 A. It appears to be, yes, sir.  
 16 Q. Okay. And were you, were you saying --  
 17 and the ASR at the bottom of the document, those  
 18 are your initials?  
 19 A. Yes, sir.  
 20 Q. And where you say, "Rich, we MUST see a  
 21 draft today," is this an e-mail addressed to the  
 22 CEO of World Health?

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1 A. It would appear so.  
 2 Q. Okay. And in the third sentence, it  
 3 says, "The folks at Bristol received no  
 4 consideration for waiving the prior defaults or  
 5 for collecting a significant amount of capital  
 6 for waiving the liquidated damages."  
 7 And is that in reference to Exhibit  
 8 No. 39? Can you, can you tell?  
 9 A. I mean I can't speculate. I mean, you  
 10 know, it's possible. It's possible.  
 11 Q. Okay. Do you recall this transaction  
 12 that's reflected in Exhibit 41?  
 13 A. No. No, I don't.  
 14 Q. And so you don't recall the  
 15 circumstances leading to, to Bristol receiving no  
 16 consideration for waiving prior defaults?  
 17 A. No, I, I don't. It's been a very long  
 18 time.  
 19 Q. I understand.  
 20 A. Is it Dave or Mr. Williams?  
 21 Q. Mr. Williams for the record. When we  
 22 go off the record, it's Dave.

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1 A. Mr. Williams, it's been a very long  
 2 time. A lot's happened in six plus years both  
 3 personally and professionally, so it's --  
 4 Q. That's fair.  
 5 A. Yeah.  
 6 Q. So do you ever recall disclosing to, to  
 7 investors of Palisades the extent to which you  
 8 received consideration for investment banking  
 9 work done on behalf of World Health?  
 10 A. Not specifically, but our, our, I do  
 11 specifically recall that our -- all these things  
 12 here -- what is this thing called -- an offering  
 13 memoranda?  
 14 Q. Sure.  
 15 A. Yeah. I know that it, or I seem to  
 16 recall that it discussed in detail that, you  
 17 know, we, we, that being Paul and myself, owned  
 18 HPC Capital, and that it was a company who by  
 19 design was in the business of receiving  
 20 remuneration for the placement of private  
 21 placements of securities, so I know that the  
 22 disclosure's in there.

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1 I don't recall that there was  
 2 specifically we were paid this on this or this on  
 3 this or this on this or what have you.  
 4 Q. You're aware that there was a general  
 5 disclosure in the offering memorandum?  
 6 A. I seem to recall there was, sir.  
 7 Q. And, and beyond the, the, the  
 8 disclosure that may have appeared in the offering  
 9 memorandum, was there ever any other disclosure  
 10 to investors about the, the extent of your  
 11 compensation for your investment banking work?  
 12 A. I don't recall.  
 13 Q. Not that you recall?  
 14 A. Not that I recall.  
 15 Q. Do you recall ever being asked by an  
 16 investor the extent of, the extent to which your  
 17 work at HPC Capital might be a conflict of  
 18 interest with your work for the fund?  
 19 A. You know, I think as I testified  
 20 earlier, I had so little interaction with the  
 21 investors that I think I can say pretty certainly  
 22 that I've never had a conversation with an

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1 investor where that was ever discussed.

2 Q. I see. Fair enough. Just one quick  
3 question about an exhibit that's already been  
4 marked for identification as Exhibit No. 3.

5 Let me hand that to your counsel first  
6 before I share it with you.

7 A. Oh, do you want me to take it? Thank  
8 you.

9 Q. This is a document that's previously  
10 been marked as Exhibit No. 3.

11 And my question to you is this -- do  
12 you recognize this document?

13 A. Can I have a second?

14 Q. Oh, sure. I'm sorry.

15 A. Sorry.

16 Q. That's a fair question.

17 (The witness reviewed the document.)

18 THE WITNESS: No, I do not recognize  
19 this document.

20 BY MR. WILLIAMS:

21 Q. Have you, have you ever seen a document  
22 like this before?

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1 MS. LAMBRACOPOULOS: Objection as to  
2 form.

3 BY MR. WILLIAMS:

4 Q. Have you ever seen a document in this  
5 format before?

6 A. I'm not trying to be evasive. I really  
7 don't know what you're asking me.

8 Are you asking me if I've ever seen a  
9 due diligence work sheet before?

10 Q. Yes.

11 A. Yeah, but not in the context of why  
12 we're all here.

13 I've seen due diligence work sheets for  
14 companies and what have you over 19 years of  
15 being in the industry.

16 Q. Okay. That's fair. Have you ever seen  
17 a due diligence work sheet for Palisades?

18 A. No, I never have.

19 Q. Okay.

20 A. Never have.

21 Q. So if someone in Palisades prepared a  
22 due diligence work sheet for investors, it wasn't

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1 you? Is that fair?

2 A. That's correct.

3 Q. Okay. So with respect to the fund's  
4 investment in World Health, you indicated that  
5 there came to be a problem in about August of  
6 2005.

7 Is that -- do you recall that's your  
8 prior testimony?

9 A. Yeah. That was, that was what we  
10 talked about I think before we broke.

11 Q. Right. And what was the nature of the  
12 problem that the company had, as you understood  
13 it?

14 A. Well, again, I want to, I want to try  
15 to --

16 Q. At the time.

17 A. Yeah. I mean I think that's the really  
18 difficult, difficult thing here, Mr. Williams.

19 You know, I mean I, you know, my brain  
20 works like most people's brains, and once you  
21 know something, it's hard to remember at what  
22 point you didn't know that.

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1 For example, I know now based on public  
2 record and investigation results and things that  
3 I didn't know then.

4 Q. Sure.

5 A. So for me to be able to tell you with  
6 certainty what I knew, when I knew it, as it  
7 relates to the, the problems at World Health,  
8 you're going to have to forgive me because it's,  
9 it's tough.

10 Q. That's fair.

11 A. What I can say is that in August of  
12 2005, there was something that occurred that,  
13 that something -- as I recall, it was the CEO of  
14 the company did not show up for an earnings call,  
15 a broadcast for the quarterly earnings, which is  
16 certainly strange.

17 And I recall that in the, the days  
18 immediately thereafter, let's call it August the  
19 15th through the 20th of the 2005 year, there was  
20 a lot of chaos at the company, that there were,  
21 were some -- what's the right word -- there were,  
22 because again, I know, I now know them to be

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1 true, but at the time, there was, there was some  
2 suspected issues of wrongdoing by the CEO, and  
3 that he had absconded himself to a treatment  
4 facility of some kind. And that's what we knew  
5 at that time.

6 There was obviously a very negative  
7 reaction in the market for the company's stock  
8 price, but there was some significant funding  
9 issues for the company as well that immediately  
10 came to the information front as a result of, you  
11 know, kind of this very chaotic situation.

12 Q. And when you say funding opportunity,  
13 what does that mean?

14 A. Well, you know, we, we, as you know, we  
15 were not the only source of capital for this  
16 company.

17 And, you know, a business of this  
18 nature met its daily operating needs by -- what's  
19 the -- financing its cash flows I guess would be  
20 the right way to say it.

21 And so they worked with a very large  
22 lender called CapitalSource, which I think is

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1 from up around here somewhere, or was from up  
2 around here somewhere, and that lender turned  
3 them off.

4 That lender refused to lend against  
5 invoices until such a time as they could get  
6 comfortable with what was going on at the company  
7 with the CEO, with the things that were being  
8 suggested at that time may or may not be true,  
9 which was a huge problem for a company that had,  
10 that was in the temporary staffing business.

11 You know, this is a company that, that  
12 employed on a contract basis, best guess, shy of  
13 a thousand people that were due payroll, and you  
14 couldn't fund operations, so you couldn't pay  
15 your people, and if you can't pay your people and  
16 your people are what you're selling in a business  
17 like this, they leave.

18 And so that was a very chaotic, very  
19 difficult time.

20 Q. And so in response to that situation,  
21 what, if anything, did Palisades do?

22 A. Well, we, we provided capital. We lent

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1 capital to them on very short notice when it  
2 became -- them being World Health -- when it  
3 became clear that their traditional funding  
4 source was in fact not going to meet their  
5 capital requirements for a series of payrolls at  
6 the end of all of '05.

7 Q. I see. And I'm going to hand you a  
8 document that's previously been marked in this  
9 case as Exhibit No. 9.

10 A. All right.

11 Q. And Exhibit No. 9 is a one-page  
12 document that appears to be an e-mail  
13 communication that appears to be from yourself to  
14 someone named John at WH Staff; subject, help us,  
15 dated August 24th, 2005.

16 And my question is do you recognize  
17 this e-mail?

18 A. You know, I, I, I wrote it. I don't, I  
19 don't, I don't recall it specifically here today.

20 Q. Sure. And it indicates that, under  
21 subheading one, that you bridged the company \$4  
22 million on August 17th, is that correct?

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1 A. That's what the e-mail says, yes, sir.

2 Q. And did that happen?

3 A. I can't recall the specific date. I  
4 know that there were two, two loans in the month  
5 of August of 2005.

6 Q. Okay.

7 A. I'm going to accept that, that if I  
8 wrote it, then my date's probably right pursuant  
9 to this e-mail.

10 Q. Okay. And those advances were after  
11 the, the difficulty that you, that you just  
12 talked about with respect to the, the CEO not  
13 showing for the earnings call and the subsequent  
14 cut-off of immediate funding?

15 A. Yeah. I would say that it was at the  
16 very beginning of the difficulty, to be frank  
17 with you.

18 That's one of those things where you  
19 can look back and go wow!

20 You know, things over the course of the  
21 next several months were very difficult across,  
22 you know, all channels here with this particular



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1 investment.

2 I'm being a little bit flippant with

3 your choice of words. I didn't mean to be.

4 It's just there were periods of time in

5 August where, you know, as I said, we didn't

6 really know what was going on.

7 It was very confusing. It was very

8 dynamic. It was very chaotic.

9 And what we do know is that we're

10 getting calls, this being myself or Mr. Mannion,

11 were getting calls from John here, who was the

12 former COO of the company, who's now been thrust

13 into a role of running the company because Mr.

14 McDonald is no longer with the company, or from

15 their lawyers, which are cc'ed on this e-mail,

16 Mr. Barker at Pogo Law.

17 And we're getting calls saying look,

18 this company is going to be shut down because

19 CapitalSource, which I mentioned here in this

20 e-mail somewhere right here, is not funding them,

21 and they can't pay their people.

22 And, you know, we just tried to help.

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1 Q. Okay. And you indicated that CapSource

2 had cut off the funding because they, they were,

3 they had questions about -- well, I don't want to

4 misstate your testimony.

5 Why did CapitalSource cut off the

6 funding?

7 A. Well, I can't tell you why they, they

8 did. I don't work there.

9 I, I can only tell you what I know now

10 in hindsight, right?

11 So I don't think that that's really a

12 reasonable way to answer your question.

13 Q. Okay. Well, if the company's original

14 source of funding had cut off --

15 A. Um-hm.

16 Q. -- its funding, I guess my question is

17 prior to investing Palisades's funds with, with

18 World Health, what, if anything, did you do to

19 satisfy yourself that World Health would be able

20 to, to repay you those funds?

21 A. Well, I think that, I think that

22 there's a really, really important distinction

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1 that needs to be made here, and I tried to make

2 it before.

3 I tried to make it when we discussed

4 the World Health matter with the folks in

5 Philadelphia when I discussed with it Mr. Aderton

6 over there, what was that, two years ago,

7 something like that?

8 Just because you have a bad egg doesn't

9 mean that the whole dozen is bad.

10 What we know now in hindsight -- this

11 is where it is important -- is that Mr. McDonald,

12 to a great extent, acted alone.

13 That's what I understand from reading

14 the indictments and all the other things.

15 There were a couple of people there

16 that were complicit with him, and they've all

17 settled with you, but generally, he was a very

18 bad guy that was doing some bad things, and a lot

19 of people got hurt badly by him, me as well,

20 millions of my own dollars, millions.

21 I mean pretty much every dollar I had.

22 I lost my house as a result of this investment,

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1 okay, and my ownership, so it's, it's difficult.

2 But it was a great company. It was a

3 great company. It's still in business today in

4 its pieces, as I mentioned earlier.

5 It's part of Jackson Healthcare, which

6 is a multiple, hundred million dollar private

7 business out of Atlanta, Georgia, one of the most

8 respected employers in the southeast, whose

9 offices are literally four miles from where my

10 office is.

11 I know the principal, Rick Jackson,

12 kind of through social circles. We share some

13 common friends.

14 He, he picked up a steal when he bought

15 this thing out of bankruptcy. It was a great

16 business. It was a great business. It still is

17 a great business.

18 We believed that the business would

19 survive, and that's why we lent them the money.

20 I'm not investing into, I wasn't

21 investing into Rich McDonald's pockets, although

22 from what I now understand six years later, some



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1 of that money went directly into his pockets  
 2 because he stole it, but we were investing in the  
 3 company, and we believed in the company.  
 4 And I happened to know the industry  
 5 reasonably well. I come from a background in the  
 6 medical industry. I understand it, the staffing  
 7 and medical staffing and locum tenens doctors.  
 8 It's a good profitable business, low  
 9 margins, but good cash flows.  
 10 They generally pay back debt. That's  
 11 why CapitalSource had extended them a near  
 12 \$40 million line.  
 13 We felt comfortable that the company  
 14 would survive.  
 15 What happened to management, Mr.  
 16 McDonald, Mr. Sercu, didn't know anymore than  
 17 anybody else new at that time.  
 18 It was pure chaos.  
 19 Q. Okay. You thought that World Health  
 20 was a good investment?  
 21 A. Absolutely.  
 22 Q. Okay. You indicated earlier today that

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1 the World Health was a significant investment for  
 2 Palisades, correct?  
 3 A. Yes.  
 4 Q. In fact, you indicated it was  
 5 Palisades's largest investment in about August of  
 6 2005, correct?  
 7 A. Yes. I indicated that I believed it  
 8 was.  
 9 Q. Yeah. And are there other limitations  
 10 or guidelines on the extent to which Palisades  
 11 can be invested in a single company?  
 12 A. You know, I don't recall if they were,  
 13 were specific.  
 14 I seem to recall that there was like a  
 15 20 percent rule, but I don't know if it's in, if  
 16 it's in the offering memorandum or not  
 17 specifically.  
 18 I haven't read the offering memorandum  
 19 in ten years, nine years.  
 20 Q. Okay, but you, you understood that  
 21 there was a 20 percent guideline in some context?  
 22 A. Yeah, in some context.

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1 Q. Okay. And if I told you that it was in  
 2 the offering memorandum, that wouldn't be  
 3 inconsistent with your recollection?  
 4 A. If you told me it was, you pointed me  
 5 to the page, I'd say sure, there it is.  
 6 I wouldn't -- I recall that there was.  
 7 I just don't remember specifically what the terms  
 8 and conditions of it were.  
 9 Q. Okay. And where was the company's,  
 10 where was Palisades's position in World Health  
 11 relative to that 20 percent guideline?  
 12 A. You know, I don't recall. Probably  
 13 pretty close.  
 14 Q. Okay. And so was there any concern  
 15 with respect to investing additional capital into  
 16 World Health, as good as the investment was, as  
 17 you described, was there any concern with  
 18 investing additional capital into the company in  
 19 about August 17th of 2005?  
 20 A. Well, Mr. Williams, that's a little  
 21 kind of open-ended.  
 22 I don't mean to be disrespectful, but

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1 is that in relation to the 20 percent?  
 2 Is that in relation to what we knew in  
 3 the diligence at the time?  
 4 Is that -- I mean sure, there's always  
 5 concerns when you make an investment of any kind,  
 6 right?  
 7 I mean that's part of the business.  
 8 You're putting capital at risk, and risk is the  
 9 operative term. Whether you're investing in IBM  
 10 shares or World Health, there's risk involved in,  
 11 in that.  
 12 So if you could maybe be more specific.  
 13 Q. Sure. Well, you understood that World  
 14 Health needed funds because it's original source  
 15 of funding was no longer willing to risk its  
 16 capital, correct?  
 17 A. Yes, sir.  
 18 Q. And so you were, you were putting up  
 19 funds of Palisades?  
 20 A. Yes.  
 21 Q. Correct? And in connection with  
 22 putting up funds of Palisades, were you concerned

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1 that Palisades would be too overly-concentrated  
2 in its investment of, in World Health?

3 A. I don't believe that I can really  
4 recall what my concerns were in any order of  
5 magnitude at that particular time.

6 There were a lot of concerns, obviously  
7 the first and foremost being that within let's  
8 call it three days of, you know, learning that  
9 the CEO of the company is in a whatever, mental  
10 institution, and was raving about how he had done  
11 all sorts of really bad things which were now  
12 potential allegations and concerns for us, there  
13 was clearly the concern that we might have too  
14 big a position in light of all of those other  
15 concerns.

16 But those also had to be weighed  
17 against the real risk, at least as it was  
18 presented to me by Mr. Sercu and Mr. Barker, and  
19 I forget the name of the CFO at the company at  
20 the time.

21 But I remember being on a call with the  
22 three of them, Mr. Barker, in order to make sure

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1 that Mr. Sercu and whoever the CFO were, didn't  
2 violate any insider information because they were  
3 privy to things that I was not privy to.

4 But what was, what was related to me  
5 was that if we didn't help them, if we did not  
6 fund them that \$4 million on the 17th, that they  
7 would not be able to make payroll.

8 If they could not make payroll, they  
9 would need to close their doors before the 30th  
10 of the month, period, the end.

11 They would have no way to pay their  
12 staff, and that staff means all the folks they  
13 have out in the field operating as temporary  
14 staff nurses, temporary staff physicians,  
15 temporary staff pharmacists, et cetera, right?

16 Their product is people, professions,  
17 and people of that ilk don't take kindly to  
18 finding out that they're not getting paid.

19 You might be able to pull that off with  
20 somebody at Seven Eleven, but you don't pull it  
21 off with a guy that's got a degree from Johns  
22 Hopkins.

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1 So we were put into the position that  
2 whatever we had invested in that company at that  
3 point was all at risk because every single  
4 employee would leave.

5 That was the presentation to us from  
6 management and their counsel, and that of all the  
7 risks seemed to be the greatest.

8 Q. Okay. So you were concerned that,  
9 well, just, just so we're clear, you were  
10 concerned that the fund's entire position at  
11 World Health would be in substantial jeopardy if  
12 you didn't advance the six million in the two  
13 tranches?

14 A. Yeah. And I probably could have said  
15 that better for you.

16 There were a lot of things that I was  
17 concerned about, that we were concerned about.

18 The primary at that particular time,  
19 because you're asking about those particular  
20 loans on those particular days, was that as  
21 presented to us, if they did not receive capital  
22 from somebody to make payroll, that the company

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1 would cease to exist, and that would obviously  
2 have very negative impact to the investment that  
3 we already had in World Health within the fund.

4 Q. And it would negatively impact the --

5 A. The entire --

6 Q. -- positions?

7 A. Yes, sir.

8 Q. But you understood that the company's  
9 capital, original capital source had been cut off  
10 because the lender had concerns as to whether the  
11 lender would get paid back, correct?

12 A. That's not what I said.

13 Q. Oh, I apologize.

14 A. I never said that.

15 Q. Okay.

16 A. What I, what I said was I don't work at  
17 CapitalSource, never worked at CapitalSource, and  
18 I don't know what their logic was at that time.

19 What it turned out to be in hindsight  
20 was that Mr. McDonald had actually forged the  
21 amount of exposure that he had taken out under  
22 the CapitalSource Line. I think I got that

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1 correct, something like that.  
 2 So that they were actually  
 3 over-extended in the company, which is partly  
 4 their own fault.  
 5 I mean somebody should have been doing  
 6 the math on their side, too, but at the end of  
 7 the day, they were over-extended based on the  
 8 collateral that Mr. McDonald was apparently  
 9 pledging.  
 10 He was pledging --  
 11 Q. I see.  
 12 A. -- receipts or invoices, and either he  
 13 was double pledging them or triple pledging them  
 14 or just manufacturing them, but they were lending  
 15 against that.  
 16 And what we've learned in hindsight  
 17 that we didn't know then and that CapitalSource  
 18 couldn't have even known right then, was that  
 19 they had more money extended than they had  
 20 collateral or invoices to cover.  
 21 Q. So they, so World Health was  
 22 over-extended?

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1 A. That's what we know now. That's what  
 2 we know now.  
 3 What we knew then and what Mr. Sercu  
 4 knew then, what I knew then, what everybody knew  
 5 then was that CapitalSource, their current  
 6 lender, had told them that we will not be giving  
 7 you money to make payroll next week and we will  
 8 not be giving you money to make payroll the  
 9 following week.  
 10 Q. Correct.  
 11 A. Now --  
 12 Q. Did --  
 13 A. Go ahead. I'm sorry.  
 14 Q. Did you have an explanation from anyone  
 15 as to why CapitalSource had did that at the time?  
 16 A. I spoke to some folks at CapitalSource.  
 17 I don't remember their names.  
 18 Q. Okay.  
 19 A. They were, they were not real helpful.  
 20 They were not real helpful.  
 21 Q. So do you recall what information they  
 22 supplied you with respect to their decision, if

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1 any?  
 2 A. They didn't, they didn't, didn't supply  
 3 any information --  
 4 Q. Okay.  
 5 A. -- for why they did what they did.  
 6 Q. Fair enough. I ask you to take a look  
 7 back at Exhibit No. 35, the --  
 8 A. Okay.  
 9 Q. -- the offering memorandum for  
 10 Palisades Equity Fund, and I'm going to direct  
 11 your attention in particular to page 9 of the  
 12 document.  
 13 A. Okay.  
 14 Q. And do you find the part of the  
 15 document that appears to indicate investment  
 16 strategies and methodology?  
 17 A. I see it.  
 18 Q. And I want to refer you to the first  
 19 sentence of the third paragraph at the very  
 20 bottom of the page.  
 21 (The witness reviewed the document.)  
 22 THE WITNESS: Okay.

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1 BY MR. WILLIAMS:  
 2 Q. In reference to that part of the  
 3 document, it indicates that "The Manager intends  
 4 to diversify the Fund's selection of securities.  
 5 It will endeavor not to invest more than 15% of  
 6 the Fund's assets in any one security, and will  
 7 under no circumstances invest more than 20% of  
 8 the Fund's assets in any one security without  
 9 consent from the investors."  
 10 Did I read that correctly?  
 11 A. Yeah. And I told you if it was in here  
 12 and you pointed it out, I would tell you there it  
 13 is, and --  
 14 Q. Sure. And my question is at the time  
 15 of the investments in late, in mid and late  
 16 August in World Health on behalf of Palisades,  
 17 wasn't Palisades over-extended in World Health?  
 18 A. I don't know the numbers. I know that  
 19 we sought consent from the investors for a  
 20 variety of different things in August and  
 21 September.  
 22 I seem to recall that one of those

1 items was consent to, to broach the 20 percent  
2 limitation.

3 I seem to recall that we got consent to  
4 form the side pocket.

5 At, at the moment in time, I don't  
6 recall what the dollar amount that we had  
7 invested is, what the percentage of assets under  
8 management it was.

9 I just -- I'm sorry -- I don't.

10 Q. Okay. And so you do recall obtaining  
11 or seeking to obtain the consent of the fund's  
12 investors or the limited partners to broach the  
13 20 percent limitation?

14 A. Yes, I do recall that.

15 Q. Okay. And was the reason for that  
16 consent the, the two investments in late August?

17 A. You know, I don't recall if it was for  
18 that specifically, or if it was for -- I mean  
19 there was, there was so much else that happened.

20 It's, it's, it's -- you're, you're  
21 aware.

22 I mean it was either over the, these

1 loans, or it was over the, the restructuring that  
2 we were going to lead that began at the end of  
3 August or so.

4 We were going to put in another  
5 \$15 million and effectively buy a very large  
6 controlling share of the company along with some  
7 other investors, re-capitalize the company.

8 As I said, we thought it was a great  
9 business.

10 As I said, it turned out to be a very  
11 good business, and still is, so --

12 Q. Did that -- go ahead.

13 A. You're fine. Go ahead.

14 Q. Did the, did the \$15 million investment  
15 happen?

16 A. It never went into the company. We, we  
17 negotiated it for several weeks, went through  
18 term sheets.

19 We wired the funds into escrow. We  
20 went through the documentation. I know counsel  
21 prepared documents, to my recollection, but it  
22 never got done. It never got done.

1 Q. Okay. Let me ask you to look back at  
2 Exhibit No. 9, which is the one-page e-mail  
3 entitled help us.

4 A. Okay.

5 Q. And in that, the paragraph that follows  
6 the four bullet points, and in particular, I want  
7 to ask you about the fourth sentence in where it  
8 says that we need someone to help us out.

9 A. Let me see here. Okay. I'm with you.

10 Q. Okay. The current value of our shares  
11 in the fund is approximately \$610,000.

12 And my question to you is how did you  
13 calculate that, that, that number?

14 A. Yeah. I have no idea.

15 Q. You don't recall?

16 A. Today, I don't.

17 Q. That's fair. Okay. And I'm going to  
18 ask you to look at the, in that paragraph, the  
19 fifth sentence from the bottom of that paragraph.

20 A. Can you tell me what it starts with?

21 Q. It starts with in a time of crisis.

22 A. In a time of crisis --

1 (The witness reviewed the document.)

2 THE WITNESS: Okay. I don't know how  
3 far you want me to go, but I've, I read it from  
4 there to the end, so --

5 BY MR. WILLIAMS:

6 Q. Well, the statement includes the  
7 sentence that we're going to show such huge loss  
8 to our LPs that we fear large-scale redemptions,  
9 and this could cause the end of our fund.

10 And my question to you is was that, was  
11 that your concern in about August of 2005?

12 A. You know, this was a very, as I said,  
13 and I guess I've got to keep stressing it, this  
14 was a very, very chaotic, very stressful time.

15 You know, I can't ask you questions,  
16 so -- it's very -- I can understand I think how a  
17 lot of the people that were defrauded by Mr.  
18 Madoff felt.

19 Mr. McDonald was very good at what he  
20 did.

21 And so I was personally floored. As I  
22 testified some time ago, and I'm never going to



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1 forget this, he -- you know, I'm, I'm, I'm a  
2 Christian person, right?

3 I was a Sunday school teacher at the  
4 time teaching young adults.

5 And somehow or another, during one of  
6 our conversations early in the relationship, it  
7 came up that I had a Sunday school event at my  
8 house or something, and I happened to mention to  
9 him that I can't talk to you after such and such  
10 because I'm having my whole Sunday school class  
11 over and cooking dinner for them or something,  
12 something like that. This is back in early,  
13 early in the relationship.

14 And the next -- you know, then he  
15 starts -- and I can see it now in hindsight,  
16 right?

17 He leveraged my, my faith and he  
18 leveraged my relationship with church and he oh,  
19 well, you know, I'm a youth group leader myself  
20 and this and that and the other, and you know,  
21 would quote Bible verses to me, you know, things  
22 like that.

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1 And I look back, and I just -- it makes  
2 my skin crawl, right, because the devil quotes  
3 Bible verses for his own benefit.

4 And I was floored. I was, I was  
5 emotionally just blown for 15, 20 days.

6 I got to tell you August 24th is my  
7 wife's birthday. I mean that's just -- May 24th  
8 is her birthday, and I'm here writing this crap  
9 instead of out dealing and celebrating with my  
10 wife.

11 I'm, I'm absolutely floored about  
12 everything that's gone on.

13 I mean my trust is shattered. Some guy  
14 that tells me he's a youth group leader and he's  
15 in the same faith as me, and we've got a, you  
16 know, we believe in this business, and when he  
17 calls, we fund him and bla, bla, bla.

18 The next you know, the guy, at least we  
19 know in hindsight, robbed everybody blind.

20 He committed pretty much every crime  
21 you can commit as CEO of a company, the best I  
22 can figure, you know.

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1 And this was I think at the very end of  
2 the day, an e-mail written in a very passionate  
3 heat of the moment time where I couldn't tell you  
4 what was happening, whether I was coming or  
5 going.

6 I felt like we had done everything  
7 correctly.

8 I still feel like we did pretty much  
9 everything correctly, and that they, you know,  
10 had come to us in some real dire need after, on  
11 their watch, their CEO defrauded us, and we  
12 bailed them out of all of that, and now we're in  
13 a position where, you know, seven days before the  
14 end of the month, we're trying to figure out  
15 okay, how are we going to deal with this issue,  
16 how are we going to deal with these assets, what  
17 are we going to do?

18 We're having conversations with  
19 counsel.

20 We're having conversations with limited  
21 partners and investors, and this was an effort by  
22 me to basically put them on notice that you guys

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1 need to step up and help us out here. You need  
2 to make it right.

3 We shouldn't be going down with the  
4 ship here. There's no ship that needs to go  
5 down. We can fix this problem, but we shouldn't  
6 be taking these massive losses for bailing your  
7 company out.

8 Q. What massive losses?

9 A. Well, what ended up happening -- it  
10 didn't happen then. It happened a year later.  
11 Happened in bankruptcy.

12 It didn't have to go to bankruptcy. We  
13 offered them another \$15 million to keep it out  
14 of bankruptcy.

15 Q. And when you say, when you say, when  
16 you say massive losses, you mean losses of the  
17 Palisades investment in your company, or  
18 something else?

19 A. Well, what you said that I wrote here,  
20 which didn't subsequently happen necessarily in  
21 the month of August.

22 This is seven days before the end of



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1 the month, and you know, we were forced to deal  
2 with side pocketing assets, and we had to look at  
3 actual valuations and how we were going to value  
4 and tear into the company, and we came to the  
5 conclusion at least the company had value, which  
6 is the reason why we agreed to put another  
7 \$15 million in.

8 And we were comfortable with what the  
9 company was doing and what the, it was worth.

10 I had to get past the, the guy and get  
11 focused on the company.

12 This is an e-mail where I'm focused on  
13 the guy. This is Andy here defrauded, sad,  
14 completely blown away by somebody that he thought  
15 was his friend that just stole all his money, you  
16 know.

17 And you know, there was, there was a  
18 lot of up and down kind of emotions during that  
19 period of time.

20 Q. Okay. In the sentence prior to the one  
21 that we just looked at, you appear to be asking  
22 for 15.4 million shares.

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1 A. Well, I think -- let me read this here.  
2 I view --

3 (The witness reviewed the document.)

4 THE WITNESS: I think what I'm asking  
5 for -- this is obviously a very badly written,  
6 disjointed e-mail, but I think that that's in  
7 relation to a couple of sentences up above where  
8 you kind of have a numerator and a denominator of  
9 some things, and I think that's probably what  
10 we're saying is that we had this much of, of  
11 stock or dollars worth of stock, and it's going  
12 to be converted into this preferred C at this  
13 price, which would equate to that many shares on  
14 a conversion basis.

15 BY MR. WILLIAMS:

16 Q. And that amount would have been equal  
17 to the amount of loss in the, in the Palisades's  
18 long position?

19 A. Well, in a theoretical loss.

20 Q. Okay. And that was based presumably on  
21 the market value of the company stock?

22 A. Theoretically. I can't answer without

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1 knowing what the price of the stock was, you  
2 know, but --

3 Q. Sure.

4 A. -- what I can say is that if you take  
5 25 cents, I would hazard a guess that if you  
6 divide that by, you know, into the number up  
7 there, you probably come up to that number.

8 Q. Sure.

9 A. Somewhere around there.

10 Q. And when you -- in reference to that,  
11 to that decrease in value, you say we are willing  
12 to receive this in restricted common stock  
13 salable under Rule 144?

14 A. Correct.

15 Q. Or tenderable in sale, but we need  
16 help. We are going to have to take a massive  
17 loss this month in our fund, and it just isn't  
18 fair to us.

19 And that's in reference to the decrease  
20 in the, the long position?

21 A. Well, I mean I think what I'm saying  
22 here is it's an effort to get him to do something

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1 that I want him to do.

2 You know, I think it was playing a  
3 little bit on his heart strings more than  
4 anything else.

5 And again, on August the 21st, I didn't  
6 really know where we were.

7 Q. Okay.

8 A. Didn't really know where everything  
9 was.

10 Q. Okay. And the sentence that we talked  
11 about earlier where it says we truly feel that  
12 we've stepped up in a time of crisis and we hate  
13 to ask now, but if we don't have it by month's  
14 end, we're going to serve such a huge loss to our  
15 LPs, we fear large-scale redemptions, and this  
16 could cause the end of our fund.

17 Was that, was that your state of mind  
18 on August 24th?

19 A. You know, I think that was certainly  
20 something that we were or I was concerned about.

21 Q. And in fact, did you get the shares  
22 that you were asking for?

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1 A. No. No, we did not.  
 2 MR. WILLIAMS: Let me ask you, let me  
 3 show you another document that I'll ask the court  
 4 reporter to label as Exhibit No. 42.  
 5 (Exhibit No. 42  
 6 was marked for  
 7 identification.)  
 8 BY MR. WILLIAMS:  
 9 Q. Okay. Mr. Reckles, I'll represent to  
 10 you that Exhibit No. 42 is a one-page document  
 11 Bates number SEC-MANNION0301654; subject, "Re:  
 12 WHAI."  
 13 And I'll give you a minute to read it.  
 14 A. I've already read it. Thanks. Yeah,  
 15 once you handed it to me.  
 16 Q. Sure. Have you seen this document  
 17 before?  
 18 A. No -- yes, I've just seen the document.  
 19 I don't recall the document from 2005, but it  
 20 would appear that I sent it from, from my e-mail.  
 21 Q. Okay. And in the second sentence on  
 22 the -- excuse me.

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1 The third sentence, the second line,  
 2 you indicate that you can't be the investment  
 3 banker in the deal because of the size of our  
 4 position, so we have turned over, this over to  
 5 Emerging Growth.  
 6 What's that in reference to, if you  
 7 recall?  
 8 A. I, I don't.  
 9 Q. Okay. And in the fifth line of the  
 10 paragraph, the first full sentence, it begins the  
 11 deal must close by this Wednesday?  
 12 A. Right.  
 13 Q. And you indicated that "...or the  
 14 company will probably fail."  
 15 Do you see that part of the document?  
 16 A. Right. I see it.  
 17 Q. And was that your belief on about  
 18 August 29th, that if the deal didn't close by,  
 19 you know, the upcoming Wednesday, the company  
 20 would probably fail?  
 21 A. You know, knowing me, I was probably  
 22 just trying to push Mr. Brezzi.

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1 Q. And who's Mr. Brezzi?  
 2 A. He was just a gentlemen that was a  
 3 co-investor in a lot of deals.  
 4 I can't recall if he invested in World  
 5 Health prior to that.  
 6 I think he may have.  
 7 Q. And, and by the way, the e-mail address  
 8 in the to is mbrezzi@dmitrust.com.  
 9 And is Mr. Brezzi someone that you  
 10 solicited to invest, or --  
 11 A. Yeah. He's a friend of mine, a  
 12 co-investor, actually still a, still quite a  
 13 close friend.  
 14 Q. Okay.  
 15 A. And -- yeah.  
 16 Q. Okay.  
 17 A. You know, actually I think I had  
 18 alluded earlier that we were, we were trying to  
 19 restructure the company, infuse a great deal of  
 20 capital into the company so that there wouldn't  
 21 have to be these weekly here's some money, here's  
 22 some money.

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1 Mr. Brezzi was one of those folks that  
 2 I had hoped would participate in that with us.  
 3 Q. Did Mr. Brezzi participate?  
 4 A. It never happened, as everyone knows.  
 5 It never, never occurred.  
 6 Q. Okay. And shortly after the end of the  
 7 month, the end of August of 2005, it came time  
 8 for, for Palisades to do its monthly valuation,  
 9 correct?  
 10 A. Well, yeah. I mean you did your  
 11 valuation at the end of every month, so that's  
 12 correct.  
 13 Q. Sure. And do you recall the process of  
 14 preparing that valuation in particular?  
 15 A. You know, I do only to the extent that  
 16 it was one of the few over the course of many  
 17 years that I ever really had any significant  
 18 involvement in, because we were facing a  
 19 heretofore never experienced event.  
 20 You know, we had never been through  
 21 anything of this nature or magnitude, and I'm --  
 22 so I do recall a good deal about this.

<p style="text-align: right;">Page 118</p> <p>1 Q. Okay. And could you describe the 2 process by which that, that particular valuation 3 was done? 4 A. Oh, it wasn't any different in the, in 5 the main. 6 I mean it was still overseen by the 7 administrators, and there was just a, a lot more 8 things happening at that time. 9 I mean there was the, the formation of 10 the side pocket because it was deemed to be the 11 best solution for all of the LPs to, due to the, 12 the difficulty in, in assessing valuation for 13 these assets that were now liquidity challenged. 14 And, and so that was something new, had 15 never been done by us before, so that was 16 happening at the same time. 17 There was a need to value the assets 18 that were being segregated into the side pocket. 19 There was a need to value all the other 20 assets outside of World Health. So it was, there 21 was a lot going on. 22 I can't remember any one specific</p>	<p style="text-align: right;">Page 120</p> <p>1 forward, so I really don't even know what the 2 genesis to the whole chain is. 3 If you could produce the chain, that 4 would help, but this is taken in, you know. 5 Q. Sure. 6 A. I don't know that this was sent from me 7 or if this was an e-mail that when I printed it, 8 or when it was printed just, you know, because 9 it's a re of a force. 10 I don't know. Not that it -- well, 11 this matters, but I just don't, don't know the 12 context. 13 MS. LAMBRACOPOULOS: Well, let him 14 ask -- 15 THE WITNESS: Yeah. 16 MS. LAMBRACOPOULOS: -- let him ask his 17 question. 18 BY MR. WILLIAMS: 19 Q. That's fair, but my question to you is 20 simply do you know who T. Dumbauld is? 21 A. Yeah, I know who Ted is. 22 Q. And who is Ted?</p>
<p style="text-align: right;">Page 119</p> <p>1 thing. 2 I just remember it being chaotic and 3 crazy. 4 MR. WILLIAMS: Sure. Let me hand you a 5 document I'll ask the court reporter to label as 6 Exhibit No. 43. 7 (Exhibit No. 43 8 was marked for 9 identification.) 10 THE WITNESS: Okay. 11 BY MR. WILLIAMS: 12 Q. I will represent to you that 13 Exhibit No. 43 is a one-page document Bates 14 number SEC-MANNION0044124. 15 It appears to be subject, 16 "EliteStability Fund Stablerock 17 Compartment/Subscription to the P..." and dated 18 September 7, 2005, to someone named T. Dumbauld 19 at aillc.us from you. 20 A. Well, actually this is a forward. 21 Q. Oh, a forward? 22 A. This is actually a response to a</p>	<p style="text-align: right;">Page 121</p> <p>1 A. I don't remember his exact title, but 2 he was somebody that worked at Access, Access 3 International. 4 Q. And what was Access International's 5 relationship, if any, to the Palisades fund? 6 A. They were an investor. They became an 7 investor. 8 Q. Okay. And was it Access 9 International's idea to create the side pocket? 10 A. They certainly opined on it. 11 Q. What was their opinion, the best of 12 your recollection? 13 A. They thought it was, it was a good 14 idea. 15 Q. I see. And so were they an investor 16 that came into the fund before or after the side 17 pocket? 18 A. They only came in after its 19 establishment. 20 Q. I see. So they came in after the 21 establishment of the side pocket, and they 22 offered the opinion that the side pocket was a</p>

1 good idea?

2 MS. LAMBRACOPOULOS: Just objection as

3 to form to the extent the use of your word came

4 in.

5 BY MR. WILLIAMS:

6 Q. They, they became limited partners in

7 the fund after the creation of the side pocket,

8 is that right?

9 A. They became investors. I don't

10 remember if they invested on-shore or off-shore.

11 And there's a fine designation whether

12 they're limited partners or investors, you know,

13 shareholders, so I don't remember.

14 Q. Sure. And they, when you say they

15 opined on the creation of the side pocket, did

16 they suggest to Palisades that the side pocket be

17 created?

18 A. Well, I think, I think that's, I think

19 I answered that.

20 I think that they, they were a group of

21 people that certainly gave us their opinion on

22 how we should deal with this issue relating to

1 World Health and the assets.

2 It wasn't any one person. There were

3 several investors and people that suggested that

4 a side pocket was a good way to go.

5 It wasn't just Access, and I don't

6 recall that they specifically -- they weren't an

7 investor in the fund at the time, so they didn't,

8 as you say, have a dog in the hunt.

9 But we certainly discussed it with

10 them, as I think this e-mail would indicate.

11 Q. At the time of this e-mail,

12 September 7th, 2005, had, had Access become

13 investors yet?

14 A. I don't recall. I don't recall.

15 Q. Sure. And in your reference to Mr.

16 Dumbauld, it appears to be an indication that

17 "This will therefore eliminate the need for a

18 side letter as the side pocket agreement will

19 remove the WHAI debt investments from the books

20 and NAV calculations of the Master Fund and

21 therefore eliminate the risk inherent to new

22 money investors as of September 1."

1 My question to you is, the first

2 question to you is what was the reference to a

3 side letter?

4 A. I could only speculate.

5 Q. Do you recall Access asking for a side

6 letter to be a part of their agreement to invest

7 with Palisades?

8 A. I don't recall specifically, no.

9 Q. Do you recall generally?

10 A. You know, I didn't, I didn't do most of

11 the work with Access, so I don't really know

12 what, what they were requesting.

13 I know that there's an e-mail in front

14 of me that talks about a side letter, and it

15 talks about a side pocket letter, all of which

16 happened six and a half years ago.

17 I don't recall specifics, you know,

18 here. Some stuff I do, but this I don't.

19 Q. Okay. And who was the primary

20 interface on the Palisades end with Access?

21 A. Well, as I've testified, as with most

22 LPs or shareholders, it was Mr. Mannion.

1 Q. I see. And in the latter part of the

2 sentence I just read where it talks about

3 eliminating the risk inherent to new money

4 investors as of September 1, was that one of the

5 purposes of creating the side pocket, to

6 eliminate the risk of, with respect to the World

7 Health debt as to new investors?

8 A. Well, there, there, there was really

9 three main reasons for creating the side pocket.

10 The first reason for creating the side

11 pocket was the protection of all of the LPs.

12 And I know it sounds strange, but

13 because of how our fund worked, if you put money

14 in on a given day, your money was locked up for a

15 period of time. It was just locked up.

16 But if you had your money in for a

17 certain period of time, you could redeem your

18 money.

19 And we had, including Paul and myself

20 had invested significantly in August of '05 as

21 well.

22 We had taken a good bit of money over



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1 the summer, so there was a lot of new capital in  
2 the fund that was all locked up, as I said,  
3 including some of my own money, but significant  
4 money from a fund in London and significant money  
5 from other investors.

6 MR. WILLIAMS: Why don't we go off the  
7 record?

8 THE VIDEOGRAPHER: This concludes Tape  
9 No. 2 of the video deposition of Andrew Reckles.  
10 On the video, the time is 12:10 p.m.

11 And we're off the record.  
12 (Pause.)

13 THE VIDEOGRAPHER: This begins Tape No.  
14 3 of the video deposition of Andrew Reckles. The  
15 time on the video is 12:14 p.m.

16 We are on the record.

17 BY MR. WILLIAMS:

18 Q. Okay. Mr. Reckles, I had asked you  
19 earlier about whether or not the purpose of  
20 creating the side pocket was to eliminate, one of  
21 the reasons was to eliminate the risk inherent in  
22 new money investors, and you were explaining to

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1 me the, the three purposes of creating a side  
2 pocket.

3 A. Yes. So -- and I think I'd like, since  
4 we're fortunate that the tape needed to be  
5 changed, I'm going to make it a little bit  
6 shorter and easier.

7 I'm going to just answer that question  
8 in relation to the e-mail in front of me --

9 Q. Okay.

10 A. -- which is Exhibit 43.

11 Q. Okay.

12 A. Since, since these -- Access was going  
13 to be a new money investor.

14 Clearly one of the things that they  
15 needed to understand was that if they were going  
16 to be making a new money investment into our fund  
17 at a time where, whether it was \$1.00 or  
18 \$10 million worth of an asset, that was a  
19 valuation challenge, they needed to be exempt  
20 from their dollars being allocated towards that  
21 investment.

22 As we were already in the process of

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1 creating the side pocket at that point, that was  
2 one of the solutions that afforded new money  
3 investors to be able to invest in the Palisades  
4 fund, but not participate in the World Health  
5 asset, thus allowing the World Health asset to  
6 belong to everybody that rightfully it should  
7 belong to, the folks that were invested in the  
8 fund up to that point.

9 Q. And was, was Access likely to be or  
10 potentially a very large investor in Palisades?

11 A. You know, I don't recall specifically  
12 how much they invested.

13 Q. Do you recall Access discussing  
14 creating an entirely new fund that would be  
15 managed by Mister, Mr. Mannion and yourself?

16 A. You know, I don't. I recall that they  
17 were going to invest money, that they wanted to  
18 have us go to, go to Europe, which we did, with  
19 them, and meet several what I assumed to be  
20 investors for our fund, and, and that's what we  
21 did.

22 The specifics of the relationship, I

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1 don't really, I don't recall six years later.

2 I would, I would agree with your that I  
3 think legally we believed that it was going to be  
4 a relationship of some substance.

5 Q. Okay.

6 A. Yeah.

7 Q. And, and you indicated that at some  
8 point, Access became an investor.

9 Did that, did that investment  
10 relationship end shortly thereafter?

11 A. You know, they, they invested money,  
12 and then they redeemed their money, and they made  
13 a nice rate of return on their money.

14 Q. And do you recall approximately when  
15 they, they requested to redeem their investment?

16 A. I don't. It was very quickly. It was  
17 within like the period of time that they were,  
18 you know, allowed to redeem.

19 Q. And do you recall if it was in about  
20 November of 2005?

21 A. I don't. I don't remember  
22 specifically.



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1 Q. Do you recall why they redeemed their  
2 investment?

3 A. No.

4 Q. Did they, did they tell you why?

5 A. They did not, to my recollection, offer  
6 any specifics.

7 Q. Okay. And I'm going to ask you to look  
8 back at Exhibit No. 42 briefly.

9 It was the e-mail, subject, re: WHAI,  
10 that we talked about earlier, dated August 29,  
11 2005.

12 Do you find that document?

13 A. Forty-two?

14 Q. Yes, sir.

15 A. Okay.

16 Q. My question is about the last  
17 sentence --

18 A. Okay.

19 Q. -- of the paragraph that, that is  
20 reflected in the e-mail where it says, "I wish we  
21 could do more than we are doing but we are at our  
22 mandate on this name."

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1 What, what does that, what does that  
2 mandate on this name, what is that in reference  
3 to?

4 A. Mr. Williams, I don't, I don't know.

5 Q. Is that in reference to the 20 percent?

6 A. I could speculate, but I, I couldn't  
7 tell you what I'm referring to. I mean six years  
8 and two, three months later.

9 Q. Sure. As I look at it, I'm wondering  
10 if that's in reference to the 20 percent  
11 threshold that Palisades fund has.

12 And what's your, what's your reaction  
13 to that?

14 A. As I said, I could speculate that would  
15 be one of a couple of things that I would, I  
16 would ascribe that to, you know.

17 I wouldn't say that you, that's wrong  
18 or that -- but I just don't know. I mean it's --

19 Q. Okay.

20 A. -- I mean six plus years, man.

21 Q. Sure.

22 A. That's a long time.

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1 Q. Let me hand you another document that  
2 has been previously marked as Exhibit No. 20.

3 MS. LAMBRAKOPOULOS: I'm sorry. This  
4 is 44?

5 MR. WILLIAMS: No. This is previously  
6 marked Exhibit No. 20.

7 MS. LAMBRAKOPOULOS: Okay. Thank you.

8 BY MR. WILLIAMS:

9 Q. And I'll give you a few minutes to take  
10 a look at the e-mail or the document.

11 A. Okay.

12 (The witness reviewed the document.)

13 THE WITNESS: Okay.

14 BY MR. WILLIAMS:

15 Q. And Exhibit No. 20 appears to be a  
16 two-page e-mail from Mr. Mannion to, to Les  
17 Elliott, with attached a spreadsheet-type  
18 document.

19 And my question to you is have you seen  
20 this document before?

21 A. No. No, I haven't.

22 Q. And as you look at the, the subsequent

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1 spreadsheet attachment that follows the second  
2 page of the document, does this document, does  
3 this form of document appear to be familiar to  
4 you?

5 A. Are you pointing me to a specific page,  
6 or just the --

7 Q. Well, generally, this, the information  
8 that appears to be contained in various, what  
9 I'll refer to as spreadsheet-type documents.

10 A. Well, I mean, I mean this looks like  
11 it's just a trade blotter for a month.

12 Q. Okay.

13 A. That's what it looks like to me.  
14 The -- so you know, pages 3, 4, and 5, that's  
15 what that looks like to me.

16 Q. Page 3, 4 and 5 appear to be a trade  
17 blotter for a particular month?

18 A. Yeah. I mean that's what it appears.  
19 It looks like dated, trades, and part of the  
20 month of August.

21 It doesn't give me a year here, but by  
22 reference back, assuming that this is the actual

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1 attachment to this actual e-mail, then they look  
2 like they're referring back to August of '05.

3 But I could never really say that with  
4 any certainty because I don't really know who put  
5 this package together.

6 Q. Okay. And is, is, is a trade blotter  
7 part of the information that would be provided to  
8 the fund administrators on a monthly basis?

9 A. Absolutely.

10 Q. As a part of calculating valuation?

11 A. Absolutely. You would have to provide  
12 a trade blotter.

13 Q. Okay. And how about the next page  
14 following the three pages that you indicate  
15 appear to be a trade blotter?

16 A. You know, that looks like the name of  
17 issuer, quantity, exercise, price, maturity.

18 I'm going to guess that this is a  
19 warrant list.

20 Q. Okay.

21 A. I don't know as of what day or what  
22 have you.

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1 Q. And is, is a warrant list also  
2 information that would be provided to the  
3 administrator on a monthly basis in the context  
4 of calculating a valuation?

5 A. Well, I mean I think they consistently  
6 had the last -- sure. I, I guess.

7 Q. Okay. How about next page? It appears  
8 to be a page in reference to World Health.

9 A. Okay.

10 Q. Do you recognize this page?

11 A. No. No, I don't. I didn't recognize  
12 it when it was first shown to me a year and a  
13 half ago.

14 Q. And that's in reference to your  
15 investigative testimony in this case?

16 A. Yes, sir.

17 Q. Okay. And you never -- did you  
18 participate in the creation of this document?

19 A. No.

20 Q. Okay. Do you know who created this  
21 document?

22 A. Well, I don't. I don't want to, I

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1 don't want to speculate.

2 And I don't obviously have a copy of my  
3 testimony from the investigative record, but I, I  
4 don't want to speculate.

5 I don't know if it was represented to  
6 me by Mr. Aderton that this was created by Mr.  
7 Mannion or if it was created by somebody at the  
8 administrator.

9 I just don't recall. I didn't create  
10 it, and I can't tell you who did.

11 Q. Okay. You didn't create it, and you  
12 don't know who did?

13 A. Yeah.

14 Q. Okay. And with respect to the column  
15 that's indicated on this page that says estimated  
16 recovery percentage, did you -- you indicated I  
17 think earlier that you had some role in the  
18 valuation of World Health for this particular,  
19 for the month of August of 2005.

20 Is that correct?

21 A. Um-hm. Yes, I did.

22 Q. Okay. And as a part of that

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1 participation, did you have conversations with  
2 Mr. Mannion or anyone else about the percentage  
3 of recovery that, that you would estimate might  
4 be recoverable from the investment in World  
5 Health?

6 A. You know, I don't believe so. I had a  
7 lot of conversations with Mr. Mannion every day.

8 We shared an office where, you know, we  
9 shared one office together, so we talked all the  
10 time.

11 And this was clearly a, a watershed  
12 event for us, and we had a lot of conversations.

13 I don't recall with any specificity  
14 whatsoever that I believed at any point in time  
15 that early in the flow of events that we could  
16 accurately put X, Y or Z percentage recovery on  
17 anything, which was the reason for the  
18 formulation of the side pocket in the first  
19 place.

20 It was in an effort to protect the LPs  
21 because we had assets that were difficult to  
22 value, and we could not determine with any great

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1 specificity certainly within 30 days of the  
2 mysterious disappearance of Mr. McDonald what the  
3 value of each individual piece of paper would be.

4 Q. So from your perspective, you had no  
5 idea whether or not the investment would be  
6 recoverable or not, is that fair?

7 A. No. That's not, that's not quite  
8 right.

9 Q. Okay.

10 A. Again, we have to go back to something  
11 that I testified to earlier, and I was pretty  
12 vocal on this point.

13 And I don't think you're trying to, to  
14 trick me or anything, but this -- we owned debt.  
15 We owned debt, top of the capital structure.

16 You've got government. You've got  
17 secured debt. You've got debt.

18 We were up very high on the capital  
19 structure here.

20 We have a bad guy doing bad things at  
21 the company, stealing money.

22 They're a good company. Once we got

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1 repaid?

2 A. Well, I recall that, that it was very  
3 short term.

4 I don't recall specifically. You know,  
5 I seem to recall that, that the first one, the  
6 four million or the, I think it was the four  
7 million, was a very short term, couple of weeks.

8 I don't recall what the terms of the  
9 two million were, and I think it all ended up  
10 getting resolved later with, with, when it was  
11 all re-cast and re-characterized in, I guess in  
12 September or October.

13 I just don't recall the dates.

14 Q. Do you recall that whether or not as of  
15 September 13th, 2005, the six million was in  
16 default?

17 A. You know, I don't recall that it was  
18 or that it wasn't.

19 If, if you had a copy of the note and  
20 it said that it was in, you know, that it was due  
21 on this date, then I could opine on it, but I  
22 just don't remember.

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1 past that week where we -- excuse me -- where we  
2 had to lend for the payrolls, and at this point,  
3 what is this now -- September the 13th --  
4 CapitalSource, as I recall, is lending again.

5 So I don't really have any overwhelming  
6 concerns about my debt.

7 I've got a viable issuer who is able to  
8 pay its bills.

9 We're working on a restructure,  
10 infusing more capital to pay down ostensibly the  
11 CapitalSource line with a huge amount of new  
12 capital, and I feel reasonably good by  
13 September 13th that our debt is recoverable, but  
14 I can't put a number on it, and I didn't. I  
15 didn't create this.

16 Q. Sure. And do you recall with respect  
17 to the -- and when I talk about your debt in the  
18 context of this question, I'm referring to the  
19 six million that was advanced to the company in  
20 about August of 2005.

21 Do you recall by the terms of those  
22 advances when that debt was supposed to be

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1 Q. By, by -- did you have a note with  
2 respect to the six million?

3 A. You know, I know we did on the four. I  
4 seem to recall the two was going to be -- and  
5 again, all of it was supposed to be  
6 re-characterized into this, this restructure.

7 All of that was going to become Series  
8 C preferred along with new money at the  
9 \$15 million, and bla bla bla bla bla.

10 So there was, gosh, there was so much  
11 going on.

12 Q. When you say all of it was going to be  
13 re-characterized into Series C preferred, who  
14 told you that?

15 A. Well, that was the, the, kind of the  
16 terms of the deal we were all working out, myself  
17 and the company and our counsel.

18 And we were, as I testified to earlier,  
19 in one of these e-mails, it kind of talks about  
20 this.

21 We're, you know, we're working all of  
22 this time on a restructuring of the company's

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1 balance sheet, infusing more capital into the  
2 company.

3 Q. So did someone at the company tell you  
4 that the debt would be re-characterized into  
5 Series C preferred?

6 A. I believe those were the terms of the  
7 deal that we were working towards completing.

8 It never got completed.

9 Q. I mean I understand that that was what  
10 you wanted.

11 My question is did someone at the  
12 company say that the company is going to do that?

13 A. Well, I mean you don't -- yes and no.  
14 Yes, we were in discussions with counsel, with  
15 members of management, about doing all this.

16 Money was put into escrow. Documents  
17 were crafted.

18 I don't know where and at what point in  
19 the corporate structure the decision was made not  
20 to move forward with the restructuring.

21 I don't remember when the decision was  
22 made not to move forward with the restructuring.

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1 I know that we were working pretty  
2 diligently to, to do that deal and to, and to get  
3 more capital put into the company, have a lot of  
4 the security that we owned reclassified into one  
5 big group of Series C preferred, and et cetera.

6 Q. Okay. I understand that that, that was  
7 the subject of the negotiations that you're  
8 discussing.

9 But what I'm trying to, to figure out  
10 is in the context of those discussions, was there  
11 someone at World Health who gave you an  
12 indication that, that this restructuring into  
13 Series C preferred was a probability?

14 A. Well, yeah. It's not like we were  
15 talking to ourselves on the phone.

16 We were talking with Bob Barker, who  
17 was their attorney.

18 He -- I mean I've got to go back here  
19 for you to exhibit -- what is this? Is this 9?  
20 It's got an 11 and a 9 on it.

21 MS. LAMBRAKOPOULOS: Exhibit 9.

22 THE WITNESS: Okay, nine; I mean

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1 you've got R. Parker at Pogo Law, Bob Barker at  
2 Pogo Law, dmocasio@srff.com, who was our  
3 attorney, and the CEO or acting CEO of the  
4 company --

5 BY MR. WILLIAMS:

6 Q. Okay.

7 A. -- all on an e-mail where the guts and  
8 core of it -- you're focusing on the please help.

9 I'm focused when I read it on the  
10 restructuring of the series preferred C and all  
11 of the other minutia details that are in there.

12 And this is an 8/24 e-mail, so  
13 somewhere around here we've already started  
14 having those conversations.

15 And at some point, somebody at EGE,  
16 which was the investment banker on this deal, got  
17 involved.

18 Q. Is that Greg Berlocher?

19 A. You know, I, I don't know. EGE was  
20 Emerging Growth Equities, if I recall. That's  
21 what I know.

22 And they got involved to raise the

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1 capital for the company, and a term sheet was  
2 crafted. I know that. And I know documents were  
3 crafted because I remember working over Labor Day  
4 weekend on the documents.

5 Q. Okay.

6 A. So I don't remember when Labor Day was  
7 in 2005, but some time in early September. So  
8 this was very fluid. It was all happening --  
9 your question is did somebody at the company give  
10 you an indication?

11 Well, absolutely, because they -- I'm  
12 corresponding with their attorneys, and my  
13 attorneys are not working for free to just create  
14 some documents that I'm hopeful someone is going  
15 to do something with.

16 It didn't work out, but we were, we  
17 were actively negotiating a deal.

18 Q. Right. And I guess what I'm asking you  
19 is in the context of those negotiations -- I'm  
20 not saying did anyone, did, did you reach a final  
21 agreement?

22 What I'm saying is did someone on the



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1 company's end give you an indication that, that  
2 this, this conversion, issuance of preferred C  
3 stock would happen?

4 A. I don't think that we would have  
5 proceeded to create documents if we weren't being  
6 given indication by the company or its counsel or  
7 someone there that we should proceed down that  
8 path.

9 Q. Okay. So my next question is who gave  
10 you that indication?

11 A. I don't recall, but I would suggest it  
12 was probably somebody on this distribution list  
13 here, whether it be John at WH Staff, R. Barker  
14 at Pogo Law, you know, somebody in Emerging  
15 Growth that was representing the company, because  
16 that was the banker.

17 I can't recall with specificity. I  
18 talked to everybody multiple times a day.

19 Q. Okay.

20 A. I keep trying to say this was chaotic.  
21 It was dynamic. It was fluid.

22 It was a company that was a thousand

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1 employees, needing capital, you know,  
2 restructuring, and as I understand it, at that  
3 point, by that point, an internal investigation,  
4 I mean a lot of stuff happening, all this stuff  
5 happening.

6 Q. Sure. And so, and so in the context of  
7 the conversion of, the issuance of preferred C  
8 stock, you feel that someone gave you an  
9 indication that that was fair to say possible?

10 A. Yeah. Fair to say? Yeah, I think so.

11 Q. But you can't recall who that was?

12 A. And I can't remember when it no longer  
13 became something that was going to happen,  
14 either.

15 Q. Okay. Do you recall Palisades filing a  
16 lawsuit against World Health?

17 A. I do recall Palisades filing a lawsuit  
18 against World Health.

19 Q. And was it -- and why did Palisades  
20 file a lawsuit against World Health?

21 A. I don't recall. I know that we did. I  
22 just don't recall.

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1 Q. Was it, was it for the failure to pay  
2 money back?

3 A. You know, I don't recall why we did it.  
4 I mean if you showed me a copy of the complaint,  
5 that would probably refresh my memory.

6 Q. Okay. That's fair. And did you, well,  
7 did you, did you review the complaint at the time  
8 it was filed?

9 A. I don't recall. Yeah, I would suspect  
10 that, that I would have.

11 Q. And would, would you agree with me  
12 that, or maybe you wouldn't agree with me that  
13 the filing of the lawsuit was an indication that  
14 you didn't believe that an agreement was likely?

15 A. Mr. Williams, without being able to  
16 look at the complaint, I don't remember what the  
17 lawsuit was over.

18 Maybe I was suing him because they  
19 were, you know, in violation of something, you  
20 know, other document that we had from a different  
21 series of investment, but we were still  
22 negotiating on this one.

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1 I mean you see that all the time, that  
2 companies sue each other, but they're still doing  
3 business between this division and this division.

4 I just don't recall what the lawsuit  
5 was about.

6 Q. Okay, but well, that's a fair point.  
7 The lawsuit involved, among other things, the  
8 \$6 million?

9 A. Do you have a copy of the lawsuit that  
10 I could review at lunch perhaps?

11 Q. That's a fair question, but I don't  
12 have a copy.

13 A. Okay.

14 Q. Sorry. So my question to you is at the  
15 point at which the valuation was being done for  
16 August, which was in about mid-September of 2005?

17 Does that sound about right?

18 A. Early to mid, yeah.

19 Q. Was there -- you indicated earlier, and  
20 I think you were quite clear that you believed  
21 that the valuation was, was challenging and  
22 difficult.



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1 Is that fair?

2 A. Yeah. Absolutely.

3 Q. All right. And so consistent with the

4 challenges and the difficulties, do you recall if

5 Palisades followed its publicly disclosed

6 valuation principles in valuing the World Health

7 assets?

8 A. Oh, absolutely. We --

9 Q. Okay.

10 A. -- we absolutely did because our, our

11 policies and procedures specifically have

12 language that provides for manager discretion in

13 a circumstance where a fair value is hard to

14 determine.

15 Q. And did you exercise that discretion to

16 depart from the, from the general principles that

17 would ordinarily guide a valuation in connection

18 with World Health?

19 A. I don't think you meant anything by it,

20 but I don't, I don't think that that was a very

21 fair way to say that.

22 Q. In what respect?

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1 A. Well, your statement was -- perhaps I

2 just didn't like the, the, the tone of it.

3 We used our discretion to best value

4 what was difficult to value in a very chaotic

5 period of time based on information flow that

6 was -- what's the right word -- information flow

7 that was coming from a lot of sources, including

8 public 8-K disclosures, and using, you know, our

9 best ability to figure out what we had in each

10 subsequent month post-August the 15th.

11 And I think that we did a good, as good

12 a job as we could do given the flow of

13 information that we had, the changing dynamic of

14 the relationship that Palisades had with the

15 company, given the fact that the company went

16 through, as I recall, two different restructuring

17 officers or corporations, one being Marsal &

18 Alvarez, and another -- and then those guys

19 either being fired or resigning, and then another

20 one being brought in, dealing with three

21 different sets of lawyers representing the

22 company.

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1 I think we did the best job we could

2 with the information flow we had.

3 Q. Okay. And looking at Exhibit No. 9

4 that we talked about --

5 A. I've got it in front of me.

6 Q. You indicated in the fourth to last

7 sentence, line of the large paragraph --

8 A. Fourth to the last?

9 Q. In a time of crisis.

10 A. Okay. I gotcha.

11 Q. And after the comma, it says but if we

12 don't have it by month's end, we're going to show

13 such huge loss to our LPs that we fear

14 large-scale redemptions, and this could cause the

15 end of our fund.

16 And my question to you is after the

17 valuation that you disseminated to the Palisades

18 limited partners for August of 2005, did you have

19 large-scale redemptions?

20 A. You know, I don't recall when the

21 redemptions started coming, but that, you know,

22 we started talking about the three reasons for

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1 the creation of the side pocket.

2 Here is reason No. 1. This was, this

3 was the reason.

4 If you have a fund like ours where

5 money comes in and has a lock-up period on it,

6 and you have older money in that isn't locked up,

7 and you have an asset that's either illiquid or

8 very difficult to value, in a circumstance where

9 people who have money in for a time can redeem,

10 they can effectively leave those that can't

11 redeem in a very unfair and untenable position.

12 And by bifurcating an asset or the,

13 let's call it the difficult asset or assets, into

14 its own class, into its own side pocket, that

15 everybody has its proportionate share, and

16 everybody is welcome to redeem pursuant to their

17 rights within the document, but everybody will

18 own their proportionate share of the stuff that's

19 difficult. Therefore, nobody is prejudiced.

20 And that was the reason. That was the

21 primary reason -- protection for everybody.

22 I mean we had investors that had

Page 154

1 invested money on August 1st and that period  
2 July, June, they were all in lock-up.

3 We had investors that had invested with  
4 us three years earlier, and they were still in  
5 the fund that weren't locked up.

6 If those folks chose to redeem -- and I  
7 don't know who redeemed and when they redeemed.  
8 Paul was probably more readily able to tell you  
9 that. I just don't recall, and I wasn't involved  
10 in that, to be -- but if they had all chosen to  
11 redeem in September, and we went into Armageddon  
12 mode, at least everybody would have been treated  
13 fairly.

14 And that's, that was the reason, and I  
15 think that it served its purpose.

16 Q. And so do you recall that once the  
17 August valuation was disseminated in September of  
18 2005, were there redemptions?

19 A. I don't recall. I don't recall.

20 Q. Do you recall there came a point  
21 where --

22 A. Absolutely. There was a point.

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1 Q. And do you recall approximately when  
2 that point was?

3 A. I don't think we saw significant  
4 redemptions until 2006 or even 2007.

5 Q. And was that, was that the point at  
6 which it became known what the value of the World  
7 Health investment would be?

8 A. You know, I don't, I don't recall. I  
9 don't think, I don't think so.

10 I don't think so, but it's possible.

11 Q. Okay. Okay.

12 A. You know, ultimately the valuation in  
13 the side pocket was irrelevant. It was  
14 completely irrelevant.

15 I know that your side of this equation  
16 seems to think differently, but it didn't matter.

17 No money could come into it, and no  
18 money could leave it until there was a  
19 dispositive event.

20 And by its very nature, it took  
21 something that was difficult to quantify, whether  
22 it was ever quantifiable or not, and disseminated

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1 it broadly amongst everybody that deserved a  
2 proportionate share.

3 Whether it was worth a dollar, whether  
4 it was worth a million dollars, it didn't matter,  
5 because it didn't have any affect on what those  
6 people could do with the rest of their money, and  
7 if somebody else wanted to invest money, they  
8 couldn't come in and be treated or prejudiced by  
9 us having it.

10 If they wanted their money back, they  
11 could take their money back, but they were going  
12 to have to wait until there was a dispositive  
13 event with their pro rata share of this asset.

14 We could have just all called it zero,  
15 but we weren't allowed to do that by our  
16 auditors, and it would have been reckless and  
17 silly for us to do that anyway because we felt  
18 that it had value.

19 Q. You would agree with me, wouldn't you,  
20 that an investor who sought to redeem their  
21 assets prior to the creation of the side pocket,  
22 for that investor, valuation of the side pocket

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1 would be relevant?

2 A. If they had redeemed prior to the  
3 creation of the side pocket, they would have been  
4 paid out on a net asset value that would have  
5 been, that would have not factored in the side  
6 pocket.

7 Q. Right.

8 A. So if you had redeemed in June of that  
9 year, you would have made great money. Our fund  
10 was doing great, returning great numbers to all  
11 our investors.

12 If you had redeemed in July, you would  
13 have done great.

14 Q. But the investors who participated in  
15 the side pocket would have shared in whatever --

16 A. Everybody participated in the side  
17 pocket.

18 MS. LAMBRACOPOULOS: Why don't you let  
19 him finish his question?

20 THE WITNESS: I'm sorry.

21 BY MR. WILLIAMS:

22 Q. The investors that participated in the

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1 side pocket would have redeemed their interest in  
2 the side pocket based on whatever the ultimate  
3 value of the side pocket was, correct?

4 A. I'm not sure I quite understand what  
5 you're asking me, so --

6 Q. Okay.

7 A. -- can you --

8 Q. What I'm asking you is that for the  
9 investors that participated in the side pocket --

10 A. A-huh.

11 Q. -- their interest in the side pocket  
12 would have been whatever value the assets in the  
13 side pocket ultimately wound up producing for the  
14 fund?

15 A. Right. If you were an investor in our  
16 fund as of August 1, then you were a participant  
17 in the side pocket, period, because the  
18 investment period, you know, your money had to be  
19 in by the first value date of the new month, so  
20 you probably wired your money in some time at the  
21 end of July so that you were an investor as of  
22 August 1.

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1 Q. Do you recall what date the side pocket  
2 was created?

3 A. I don't. I don't.

4 Q. Was it, was it in September or in  
5 August?

6 A. I don't recall.

7 Q. Okay.

8 A. There were discussions happening about  
9 its formation and creation in August, and I don't  
10 know if it was formally documented in September  
11 or August.

12 I recall that we actually went to the  
13 LPs and got their consent to do it.

14 I think we discussed that earlier in,  
15 in our conversations today, but I don't remember  
16 exactly.

17 Q. Okay.

18 A. All --

19 Q. And we'll come back to that.

20 A. Yeah. All I'm saying is that everybody  
21 that was an investor in our fund up to that  
22 point, if they had money in the fund, they now

Page 160

1 owned a share of the side pocket.

2 They owned a share, their own pro rata  
3 percentage of that pool of assets, whatever its  
4 value may be.

5 But until there could be a dispositive  
6 event with those assets, right, ultimately it  
7 didn't really matter what the valuation along the  
8 way was.

9 What, what was relevant was what the  
10 end valuation would be.

11 Everybody hoped, right, everybody hoped  
12 that because we held debt in what we believed to  
13 be a very good company, right, that they would  
14 get through whatever Mister, whatever Mr.  
15 McDonald, the bad egg, did, and we would end up  
16 with a viable company.

17 We didn't know what that meant for, for  
18 months.

19 We didn't know if that meant that it  
20 was going to be privatized or somebody was going  
21 to buy it, if they were going to remain public,  
22 if they were going to -- we didn't know. We

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1 didn't know.

2 What we did know is that by the  
3 creation of the side pocket, our investors were  
4 protecting from, each other from some random,  
5 from one investor running on the bank because his  
6 money was in at a point in time sooner than  
7 another guy's money was in.

8 Q. I see. And would you agree with me  
9 that the ultimate legal value of this side pocket  
10 assets was pretty close to zero?

11 MS. LAMBRACOPOULOS: Objection as to  
12 form.

13 Go ahead and answer if you can.

14 THE WITNESS: You know, honestly, I  
15 don't know.

16 I don't even know what the disposition  
17 of the bankruptcy has been.

18 I know that there was some agreement  
19 that there was like \$3 million paid for the  
20 benefit of creditors, and we've never seen it.

21 We were the largest subordinated  
22 creditor, so I'd love to know where that money

Page 162

1 is.  
 2 It's probably in the same place as the  
 3 Lehman Brothers' bankruptcy money is, just  
 4 running around with the trustee.  
 5 I don't know, so I don't -- I can't say  
 6 yes or no.  
 7 What I do know is that today, we've  
 8 received nothing.  
 9 Is there money out there? I was led to  
 10 believe there was.  
 11 BY MR. WILLIAMS:  
 12 Q. Okay. In connection with the creation  
 13 of the side pocket, and I'll show you some  
 14 documents that will help you pin down the dates,  
 15 I'm not trying to pin you down on the date, but  
 16 with respect to soliciting partners in creating  
 17 the side pocket, did any of the partners or  
 18 investors choose to redeem their assets rather  
 19 than participating in the side pocket?  
 20 MS. LAMBRACOPOULOS: Objection as to  
 21 form with respect to the word soliciting.  
 22 Otherwise, he can answer.

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1 THE WITNESS: You know, I don't recall.  
 2 I don't recall.  
 3 BY MR. WILLIAMS:  
 4 Q. That might have happened, but as you  
 5 sit here today, you can't recall one way or the  
 6 other?  
 7 A. I really can't. I seem to recall that  
 8 we had a, if it wasn't unanimous, it was a nearly  
 9 unanimous consent to create the side pocket.  
 10 But I don't, I don't recall whether it  
 11 was 97 percent, 95 percent, 99 percent.  
 12 I know that we had -- the vast majority  
 13 of the assets under management had agreed to the  
 14 formation and creation of the side pocket.  
 15 Q. And you do recall that some investors  
 16 didn't agree?  
 17 A. I don't recall. I don't recall  
 18 specifically.  
 19 I just -- I remember that it was  
 20 resoundingly to the positive.  
 21 I don't know. It may have been 100  
 22 percent. I really don't.

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1 I didn't manage the process.  
 2 Q. Who managed the process?  
 3 A. Mr. Mannion, administrators; I didn't  
 4 manage the process.  
 5 MR. WILLIAMS: Okay. Okay. And with  
 6 that, why don't we, why don't we go off the  
 7 record for a lunch, lunch period?  
 8 THE WITNESS: Okay.  
 9 THE VIDEOGRAPHER: We're going off the  
 10 record.  
 11 The time on the video is 12:50 p.m.  
 12 (Whereupon, at 12:50 p.m., the  
 13 deposition was recessed, to reconvene at 2:00,  
 14 p.m. the same day.  
 15  
 16  
 17  
 18  
 19  
 20  
 21  
 22

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1 AFTERNOON SESSION  
 2 (2:06 p.m.)  
 3 THE VIDEOGRAPHER: We're back on the  
 4 record.  
 5 The time on the video is 2:06 p.m.  
 6 Whereupon,  
 7 ANDREW L. RECKLES,  
 8 the witness on the stand at the time of recess,  
 9 having been previously duly sworn, was further  
 10 examined and testified as follows:  
 11 FURTHER EXAMINATION BY COUNSEL FOR  
 12 PLAINTIFF  
 13 BY MR. WILLIAMS:  
 14 Q. Mr. Reckles, I had asked you earlier  
 15 today about Palisades's investments in World  
 16 Health in about late August of 2005.  
 17 I'm going to show you a document that's  
 18 previously been marked for identification as  
 19 Exhibit No. 13 in this case.  
 20 A. Thanks.  
 21 Q. Exhibit No. 13 I'll represent to you is  
 22 a series of documents, and the one I'm going to

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1 ask you about is the first page of the exhibit,  
 2 which appears to be a September 29, 2005, letter  
 3 to Mr. Mannion.  
 4 A. Let's see here.  
 5 (The witness reviewed the document.)  
 6 THE WITNESS: Okay.  
 7 BY MR. WILLIAMS:  
 8 Q. Okay. My question to you, Mr. Reckles,  
 9 is directing your attention to the first page of  
 10 the document, in particular the letterhead, it  
 11 appears to be, the return address in South  
 12 Carolina, and the e-mail address is LO Dworjanyn.  
 13 And my question to you is do you  
 14 recognize that name, LO Dworjanyn?  
 15 A. Not particularly.  
 16 Q. Okay. You don't recognize the last  
 17 name Dworjanyn as the last name of an investor in  
 18 Palisades?  
 19 A. If he was, he was.  
 20 Q. But you don't recognize the name?  
 21 A. Not particularly.  
 22 Q. Okay. And to your knowledge, did you

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1 ever have conversations with --  
 2 A. Not to my, not to my recollection.  
 3 Q. -- Mr. Dworjanyn?  
 4 A. I'm sorry. I'm sorry. Not to my  
 5 recollection.  
 6 As I've testified to, I didn't really  
 7 often speak to any of our investors.  
 8 Q. Okay. Were you aware generally in  
 9 September of 2005, any investors who articulated  
 10 objections to Palisades investing these, the  
 11 additional \$6 million in World Health?  
 12 A. No. No, I'm not.  
 13 Q. Okay. If there had been objections,  
 14 would those have been communicated to Mr. Mannion  
 15 as opposed to you given what you've described  
 16 about his role with respect to interacting with  
 17 the limited partners?  
 18 MS. LAMBRAKOPOULOS: Objection. Calls  
 19 for speculation.  
 20 You can answer to the extent you can.  
 21 THE WITNESS: Well, I, I would say that  
 22 I would have to speculate, that the answer is

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1 yes, they would have probably gone to Mr.  
 2 Mannion.  
 3 The letter that you've put in front of  
 4 me was directed to, to Mr. Mannion, not even to  
 5 Mr. Mannion and Mr. Reckles, so one, one could  
 6 assume that he didn't even know that I existed.  
 7 BY MR. WILLIAMS:  
 8 Q. Okay. And were you aware of any  
 9 request for withdrawals of investments in  
 10 Palisades in September 2005?  
 11 A. I have no recollection of any. I sure  
 12 don't remember.  
 13 This is the first time I've actually  
 14 ever seen this document.  
 15 Q. Okay.  
 16 A. You know.  
 17 Q. Let me you ask this. If a  
 18 communication from an investor to Palisades came  
 19 into the office, who would receive that document  
 20 in about September 2005?  
 21 A. Well, clearly it would depend on who it  
 22 was addressed to.

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1 If it was addressed to Mr. Mannion, he  
 2 would, would open it.  
 3 It could also have been sent to the  
 4 administrators.  
 5 They often in, in the course of our  
 6 history together, received communications from  
 7 investors.  
 8 Q. Okay. And with respect to the address  
 9 under Mr. Mannion's name, the first page of  
 10 Exhibit 13, do you recognize that address?  
 11 A. Yes.  
 12 Q. And whose address is that --  
 13 A. That --  
 14 Q. -- in September of 2005?  
 15 A. That was the, the offices for the fund.  
 16 Q. Okay. Do you recognize the phone  
 17 number beneath the address?  
 18 A. Yeah.  
 19 Q. Vaguely?  
 20 A. Vaguely, yeah.  
 21 Q. Okay. And what phone number do you  
 22 recognize that as?



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1 A. Well, I recognize it as one of the  
2 phone numbers for, for the fund.  
3 Q. Okay. Okay.  
4 A. Yeah.  
5 Q. And directing your attention to the  
6 second to last sentence in the bottom paragraph  
7 of the first page, and it refers to a telephone  
8 conversation of September 21st in which you, in  
9 reference to Mr. Mannion, said the total  
10 investment in WHA was 25.4 percent.

11 And my question to you is is that  
12 percentage consistent with your understanding of  
13 Palisades's investment in World Health in about  
14 September of 2005?

15 A. I'm sorry. Would you repeat that?

16 Q. Yeah. My question is with respect to  
17 the figure 25.4 percent, and my question is is  
18 that consistent with your understanding of  
19 Palisades's investment in World Health in about  
20 September of 2005?

21 A. I think I testified earlier that I just  
22 didn't really recall what our ownership

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1 percentage was.

2 Q. You don't -- so did you have, do you  
3 have a general sense such as you can indicate  
4 whether or not that 25.4 percent is consistent or  
5 inconsistent with what you believe the percentage  
6 was?

7 A. It, it seems high to me, but I don't  
8 really have a sense.

9 I would need a lot more information in  
10 front of me to be able to, to make that  
11 assessment.

12 Q. Okay. And as you worked for Palisades  
13 in about August and September of 2005, how often  
14 did you make that sort of calculation with  
15 respect to the concentration of your investment  
16 in World Health, or did you make that  
17 calculation?

18 MS. LAMBRACOPOULOS: Objection as to  
19 form, but go ahead.

20 THE WITNESS: I think I would answer  
21 that by saying that it would be done with the  
22 NAVs because it's a point in time issue versus a

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1 daily.

2 We didn't -- you know, unlike a, a  
3 normal mutual fund or a daily liquidity hedge  
4 fund where you have a daily NAV, we have a  
5 monthly NAV.

6 There's a monthly point in time where,  
7 you know, you've gone from August to September or  
8 November to December, and so there's a stop and  
9 then a start.

10 And I would probably say that it would  
11 be on the monthly NAV point that a calculation  
12 like that would be, would be looked at.

13 BY MR. WILLIAMS:

14 Q. And in about that timeframe, say the  
15 summer of 2005, the NAV -- and NAV is a, is a, is  
16 an acronym for net asset value, correct?

17 A. Yes, sir. Sorry. I should have been  
18 more specific.

19 Q. And that calculation for Palisades was  
20 made as of the last day of the month, is that  
21 correct?

22 A. Yes. Yes. Correct.

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1 Q. Okay.

2 A. Generally speaking, but yes, correct.  
3 Sorry. I was taking a drink.

4 Q. Sure. Were there exceptions to that  
5 general rule that you recall?

6 A. Specifically, the August of 2005's NAV,  
7 net asset value.

8 Q. And the best of your recollection, what  
9 day was that calculated as of?

10 A. You know, I think just a couple of days  
11 beyond the 31st of August, just a couple of days.

12 Q. And do you have a recollection as to  
13 why it was calculated as of a couple of days  
14 beyond August 31st?

15 A. Excuse me. Not, not a specific one  
16 other than we were again dealing with such an  
17 enormous confluence of issues.

18 We were, we were dealing with the  
19 creation of a side pocket, which had our, our  
20 administrators quite busy on that because they  
21 were integral in its formulation, and making sure  
22 that all, that it was a properly -- there was

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1 information flow that was pretty consistent and  
2 constant and chaotic, as I've testified before.

3 So I think it had mostly to do with  
4 just the lack of enough people.

5 I mean again, as I've already  
6 testified, we were a small shop. There was a lot  
7 going on with whatever the percentage, a very  
8 large significant investment for our fund, and I  
9 think that the NAV calculation was, was just  
10 late.

11 I think we were just late in getting  
12 everything all packed and tied together.

13 Q. Okay. Let me show you a document  
14 that's been previously marked in this case as  
15 Exhibit No. 22.

16 (The witness reviewed the document.)

17 THE WITNESS: All right.

18 BY MR. WILLIAMS:

19 Q. And Exhibit No. 22 is a multiple page  
20 document.

21 And my question, the first question to  
22 you is do you recognize this document?

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1 A. Well, I honestly, I have a very  
2 difficult time seeing what is document pages 1  
3 and 2. It's, it's --

4 Q. Okay.

5 A. -- either my eyesight, or it's very,  
6 very small, but I'm having a difficult time  
7 making it out.

8 Q. On the first page, that appears to be  
9 titled Palisades Equity Fund, LP --

10 A. Okay.

11 Q. -- August 31st, 2005, partnership  
12 interest, is that text difficult for you to read?

13 A. I can read that. I just am having a  
14 hard time reading some of the detail below.

15 Q. I see. And it appears to be a list of  
16 names of individuals, including -- your name  
17 appears to be the first name on the list.

18 Can you make that out?

19 A. Yeah. I can see my name there, yes.  
20 Okay?

21 Q. Okay. And is this a list of the  
22 partners in Palisades Equity Fund, if you know?

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1 A. I mean it, it appears to be. I'm going  
2 to kind of do it this way.

3 Yeah, it appears to be, sir.

4 Q. Okay. And the bottom of this first  
5 page, the list of names, there's a name Lee  
6 Dworjanyn.

7 Does that -- am I reading that  
8 correctly?

9 A. Yeah, I see that there. Okay?

10 Q. And what I want to ask you about in  
11 particular, I'm going to ask you to turn into the  
12 document.

13 A. Okay.

14 Q. To the page that's Bates numbered  
15 SEC-MANNION0301603.

16 A. Okay.

17 Q. And let me ask you do you recognize  
18 the, the, this page of the document?

19 A. It appears to be, it appears to be --  
20 what does it say here -- account holdings lead  
21 schedule.

22 It looks like it's just a listing of

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1 positions within the fund.

2 Q. Okay. And turning back to -- I'm  
3 sorry. Turning back to three pages prior to  
4 that, there's a page Bates number SEC-MANNION0301600?

5 A. Okay.

6 Q. And is this the net asset value  
7 calculation for Palisades Master Fund?

8 A. It says across the top net asset value  
9 statement, January 1 through August 31.

10 It looks like a, I mean it looks like  
11 part of the net asset value documents.

12 Q. Okay. And so what, what, to your, to  
13 your understanding, what would the net asset  
14 value documents consist of?

15 A. Well, what I can recall seeing would be  
16 something like, like what you've put in front of  
17 me combined with a list of positions combined  
18 with some of the other stuff we've looked at like  
19 a trade blotter.

20 You know, I very seldom saw, if I can  
21 recall ever seeing a final product.

22 I usually, if I was involved in any

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1 given month, saw the guts of what went into it,  
2 so the trade blotter, the, the movement of  
3 monies, the wire, the references, what have you.

4 Q. And would those documents be the sort  
5 of documents that we saw in Exhibit 20 when we  
6 looked at that earlier today?

7 A. Yeah. I don't remember which one was  
8 20, but we looked at something that kind of had a  
9 lot of what the guts of formulating.

10 I'd have to see. Is that 20? Okay.  
11 That's the trade blotter.

12 That would be part of the, the, the  
13 backfill or the guts to getting to what I guess  
14 this is here.

15 I didn't generally, you know, look at  
16 this or this was crafted by the, the  
17 administrators.

18 Q. Do you know who generally looked at  
19 this document?

20 A. Well, I would assume Paul, Mr. Mannion,  
21 did that a lot more than I, and then this was  
22 crafted by the administrators.

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1 Q. And when you say you assume that Mr.  
2 Mannion did that a lot more than you, why do you  
3 assume that?

4 A. Because that's what he did at the fund.

5 Q. Okay.

6 A. It was kind of the major role and  
7 responsibility that he took on.

8 Q. Okay. Was this a document that was  
9 shared with the fund's investors?

10 A. You know, I honestly don't know. I  
11 know that they received statements, but I don't  
12 know what form the statements took.

13 Q. And the statements would indicate the  
14 monthly performance of the fund among --

15 A. You know, I can't speculate because I  
16 don't, I don't recall.

17 I know that I actually received them  
18 because I had investments of my own in the fund  
19 as we just -- but it's been so many years, I just  
20 don't recall what, what the detail was.

21 Q. I see. Let me ask you to turn back to  
22 page, with the Bates number ending 1603.

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1 A. Okay. All right. All rightee.

2 Q. And I'm going to direct your attention  
3 to the part of the document that appears to be  
4 related to side pocket.

5 A. Okay.

6 Q. Do you find that part of the document?

7 A. I can see it.

8 Q. And there's an indication of five  
9 different types of World Health Alternatives  
10 investments.

11 Do you see that?

12 A. Yes.

13 Q. And it offers a market value for a  
14 World Health Alternatives investment that's in  
15 the category SLD.

16 Do you see that?

17 A. Yes.

18 Q. And do you know what SLD is?

19 A. It's self-liquidating, so  
20 self-liquidating debenture.

21 It's a, a bond, a note.

22 Q. And the market value indicated for that

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1 self-liquidating debenture is approximately  
2 7.3 million, correct?

3 A. That's what, that's what it shows here,  
4 yes.

5 Q. Okay. And there's a promissory note  
6 from World Health in the amount of four million?

7 A. Um-hm.

8 Q. Do you see that part?

9 A. Yes, sir.

10 Q. And another loan in the amount of two  
11 million and restricted stock in the amount of  
12 1.894 million approximately, and apparently  
13 unrestricted stock in the amount of \$110,000.

14 And my question is, it's going to be in  
15 reference to Exhibit No. 20, so let me ask you to  
16 get Exhibit No. 20 in front of you.

17 Do you have Exhibit No. 20?

18 A. Got it.

19 Q. And in particular, with respect to the  
20 very last page, the second to last page of  
21 Exhibit No. 20, there appear to be some values  
22 for World Health?

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1 A. Sir, we're on the page that's 1663 --  
 2 Q. Yes, sir.  
 3 A. Bates number -- okay. All right. I'm  
 4 with you.  
 5 Q. And there appear to be four different  
 6 categories of World Health positions reflected on  
 7 this table.  
 8 Do you see that?  
 9 A. I do.  
 10 Q. Okay. And with respect to the  
 11 \$4 million investment and the \$2 million  
 12 investment, those figures appear to be consistent  
 13 with what's reflected on Exhibit No. 22, correct?  
 14 A. They do.  
 15 Q. With respect to the self-liquidating  
 16 debenture, the amount estimated on Exhibit No. 20  
 17 is 3.3 million, and the amount, the amount  
 18 reflected as a market value in Exhibit No. 22 is  
 19 approximately 7.3 million.  
 20 Do you see that?  
 21 A. Yes, I do.  
 22 Q. And as you sit here today, do you know

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1 how to account for the difference?  
 2 MS. LAMBRACOPOULOS: And objection to  
 3 your question to the extent it presumes that  
 4 Exhibit 20 reflects the valuations of these  
 5 securities and notes.  
 6 BY MR. WILLIAMS:  
 7 Q. You can answer if you can.  
 8 A. Okay. So I'd like you to read back or  
 9 just say that for me one more time --  
 10 Q. Sure.  
 11 A. -- the way that you said that.  
 12 Q. I'll repeat the question.  
 13 A. Thank you.  
 14 Q. With respect to the approximately \$3.5  
 15 million figure reflected on Exhibit 20 --  
 16 A. Um-hm.  
 17 Q. -- and the approximately \$7.3 million  
 18 figure reflected on Exhibit No. 22 --  
 19 A. Um-hm.  
 20 Q. -- do you know what accounts for the  
 21 difference between those two numbers?  
 22 A. Well, I think it's fundamentally that

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1 Exhibit No. 20, page 1663, is an internal work  
 2 product that was not a NAV.  
 3 And I think as I testified earlier  
 4 today, and as I testified in my interview  
 5 whenever that was back in May of whenever it  
 6 was -- was it last year? I can't recall. Sorry.  
 7 MS. LAMBRACOPOULOS: Longer than that.  
 8 THE WITNESS: Two years ago, whenever  
 9 it was -- that, you know, I have felt and  
 10 continue to feel that this document 1663 was  
 11 taken completely out of context by you folks.  
 12 As I've tried to explain over and over  
 13 again, apparently not very well, we were dealing  
 14 with a very chaotic situation.  
 15 And there were some days where, as I've  
 16 testified, you know, either Mr. Mannion or myself  
 17 probably wanted to jump out of our ground floor  
 18 office window. We would have done a lot of  
 19 damage to ourselves.  
 20 But, but there were some days where you  
 21 got over feeling sorry for yourself, and you said  
 22 you know, this is still a really good company.

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1 There was probably some point in there  
 2 where, and again, I think as I testified earlier,  
 3 that I assume or suspected that this was created  
 4 by Mr. Mannion because it wasn't created by me,  
 5 that he was playing some back-of-the-envelope  
 6 numbers for his own calculations.  
 7 And somehow or another, your group over  
 8 there has decided that this is what we felt all  
 9 of that paper was worth, and that's just not the  
 10 truth.  
 11 That's just not the truth.  
 12 BY MR. WILLIAMS:  
 13 Q. Where is the calculations you referred  
 14 to in Exhibit No. 20?  
 15 A. Page 1663, Exhibit No. 20, Bates 1163.  
 16 Q. And where does that calculation come  
 17 from?  
 18 A. I couldn't begin to tell you. This is  
 19 a, this is just words on a page that aren't  
 20 attached to anything.  
 21 This exhibit number, with all respect,  
 22 exhibit number, is this five that I'm looking at?



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1 Twenty-two?

2 MS. LAMBRAKOPOULOS: Twenty-two.

3 THE WITNESS: Twenty-two, Bates No.

4 1603, is the final say in the matter. That's

5 what the administrators put out.

6 It's not what I put out. And the

7 administrators have the call. Ultimately, they

8 have the call.

9 They aggregate the data we provide, and

10 they aggregate, as you put other exhibits in

11 front of me, answers to their queries, and they

12 put all that together, and they create a NAV.

13 BY MR. WILLIAMS:

14 Q. And did the administrators create the

15 valuations of the World Health position based on

16 what either you or Mr. Mannion told them?

17 A. They created a NAV for those positions

18 based entirely on the information that was

19 provided to them as provided to us by the

20 attorneys, the company, and everybody else that

21 could provide input during those very chaotic

22 days, and ultimately the reason why this side

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1 pocket was created in the first place.

2 As I said to you earlier, and I mean

3 this with all due respect, the value of the side

4 pocket really had no bearing on anything until

5 there could be a final disposition.

6 Its sole purpose was for the benefit of

7 the protection of the investors from each other.

8 The only reason why we even bothered to

9 apply value to it at all is because several of

10 our investors were very large funds of funds

11 themselves, and they had to be able to respond to

12 their investor as to what the value of their

13 holdings was.

14 Q. And were, were you aware of whether or

15 not the value of the World Health position as of

16 August of 2005 was included in the net asset

17 value of Palisades?

18 A. I'm sorry?

19 Q. Yeah. Was the value of the side pocket

20 of World Health health position as of

21 August 31st, 2005, included in the net asset

22 value of Palisades?

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1 A. Well, again, I'm trying to -- I don't

2 want to be impolite.

3 MS. LAMBRAKOPOULOS: Do you understand

4 the question?

5 THE WITNESS: Well, I, I'm not sure

6 that I do.

7 You're asking me if the side pocket

8 values were included in the net asset values for

9 August of, of '05?

10 BY MR. WILLIAMS:

11 Q. Yes.

12 A. Is that what you're asking me?

13 Q. Yes, sir.

14 A. Let me see one thing.

15 (The witness reviewed the document.)

16 THE WITNESS: I don't have anything in

17 front of me that could tell me whether they were

18 or whether they weren't.

19 I think we looked at something here

20 just recently that pointed out this is part of

21 the -- so on page 1603, we have the side pocket

22 delineated.

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1 BY MR. WILLIAMS:

2 Q. Go ahead.

3 A. We have the side pocket delineated on

4 page 1603, but I don't have the, the rest of the

5 back-up.

6 My assumption is, is yes, but I can't

7 say that specifically.

8 If it's delineated in, in 1603, which

9 is the backfill data that's crafted by the

10 administrators to create the total NAV, then one

11 would have to leap forward and say yes, it was

12 calculated as part of the overall NAV.

13 Q. And in particular, I direct your

14 attention to the page with the Bates number

15 ending in 1600.

16 A. Okay.

17 Q. And does the, does that document appear

18 to reflect as an asset the side pocket

19 investments?

20 (The witness reviewed the document.)

21 THE WITNESS: Yeah, it does.

22 BY MR. WILLIAMS:



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1 Q. And it reflects a value of  
 2 approximately 15.3 million?  
 3 A. Yeah, roughly 5.3, yes.  
 4 Q. And the net asset value of Palisades,  
 5 that figure is used, among other things, to  
 6 calculate the returns of the fund, is that  
 7 correct?  
 8 A. Is that --  
 9 Q. The net asset value.  
 10 A. Yeah, I guess so. Yeah.  
 11 Q. As far as you know?  
 12 A. Yeah, as far as I know.  
 13 MR. WILLIAMS: Okay. Why don't we go  
 14 off the record for a moment to allow the  
 15 videographer to change the tape?  
 16 THE VIDEOGRAPHER: This concludes Tape  
 17 No. 3 in the video deposition of Andrew Reckles.  
 18 The time on the video is 2:32 p.m.  
 19 We are off the record.  
 20 (Pause.)  
 21 THE VIDEOGRAPHER: This begins Tape No.  
 22 4 in the video deposition of Andrew Reckles. The

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1 time on the video is 2:33 p.m.  
 2 We are on the record.  
 3 BY MR. WILLIAMS:  
 4 Q. And I asked you a second ago whether or  
 5 not the net, the NAV was used to calculate the  
 6 returns of the fund, and I believe you indicated  
 7 that you believed that they were?  
 8 A. Yes.  
 9 Q. Is the net asset value also used to  
 10 calculate the manager's fees, as far as you know?  
 11 A. No. No. That wouldn't be the, the --  
 12 how you would do it.  
 13 Q. How would you do it?  
 14 A. Well, you know, I apologize. I mean to  
 15 some extent, yes, but so you've got, it's --  
 16 assets under management, fee is one determining  
 17 factor for the management fee.  
 18 And the performance fee is based on the  
 19 realized increase in net asset value month over  
 20 month.  
 21 So yes, it, it is important to the  
 22 extent that in month, you know, August, you have

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1 a net asset value of 10 and in month September,  
 2 you have a net asset value of 12, but that, that  
 3 delta of two was a realized gain.  
 4 It had to have been a dispositive  
 5 event. It can't be just a movement in numbers.  
 6 Q. That's a performance fee?  
 7 A. Yeah. Yes.  
 8 Q. So for the management fee it's  
 9 simply --  
 10 A. Assets under management, so a decrease  
 11 in assets under management would yield a lower  
 12 management fee, and an increase in assets under  
 13 management would increase a, a, a, an increase in  
 14 fees.  
 15 Q. Would yield an increase in management  
 16 fee?  
 17 A. It would be more, correct.  
 18 Q. And you indicated in your testimony a  
 19 few minutes ago that with respect to the page  
 20 pertaining to World Health in Exhibit No. 20,  
 21 that the SEC has unfairly taken a document  
 22 somewhat out of context?

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1 A. Um-hm.  
 2 Q. And considered that as reflective of a  
 3 net asset value that wasn't really a net asset  
 4 value? Is that fair?  
 5 A. I think, I think that that's reasonably  
 6 fair. I think a lot worse, but --  
 7 Q. Okay. That's fair enough.  
 8 A. Okay.  
 9 Q. Let me ask you to take a look at  
 10 Exhibit No. 35.  
 11 A. Which one is that?  
 12 Q. That's the Palisades Equity Fund  
 13 confidential offering memorandum.  
 14 A. Okay. I have it.  
 15 Q. And I'll direct your attention in  
 16 particular to page 17 of that document.  
 17 A. Okay.  
 18 Q. And in particular, I want to ask about  
 19 the portion of the document relating to  
 20 calculation of net asset value.  
 21 Do you find that part of the document?  
 22 A. I, I do. It's the bottom half of the

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1 page there.  
 2 Q. Okay. And it talks about, at the very  
 3 last paragraph, valuation for common stock where  
 4 there is no trading market, where there exists a  
 5 trading market, but there's no current price  
 6 or -- and common stock for which no established  
 7 trademark exists shall be valued in the sole  
 8 discretion of the general partner using publicly  
 9 traded comparables, third party appraisals or  
 10 other appropriate measures.

11 And then it goes on to say transactions  
 12 consisting of convertible debentures or preferred  
 13 purchased under Regulation D shall be valued at  
 14 cost until such time as the investment is  
 15 converted into common stock and gets sold.

16 Then it says, "However, if the Manager  
 17 determines that the value of any security or  
 18 other investment is not representative of fair  
 19 value, the Manager shall assign a value to such  
 20 security or other investment as they may  
 21 reasonably determine and shall set forth the  
 22 basis of such valuation in writing in the Fund's

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1 records."

2 And did I read that part of the  
 3 document correctly?

4 A. Yes -- verbatim.

5 Q. And my question to you is does there  
 6 exist some writing other than the World Health  
 7 page on Exhibit No. 20 that explains Palisades's  
 8 valuation of its side pocket in World Health  
 9 assets?

10 A. Well, I mean, Mr. Williams, I think  
 11 that again, and you're doing your job, and you're  
 12 doing a good job of it, but --

13 MS. LAMBRACOPOULOS: Just answer his  
 14 question.

15 THE WITNESS: I am. You're, you're,  
 16 you're taking one page -- everything we've looked  
 17 at today, every e-mail, every correspondence that  
 18 Adam Aderton and Julie Riewe and everybody in  
 19 Philadelphia, boxes worth of this stuff, has from  
 20 our fund, for that finite period of time is part  
 21 of that record, all of that, e-mails back and  
 22 forth between myself and Mr. Sercu, e-mails back

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1 and forth between myself and Mr. Barker,  
 2 everything that took place during that period of  
 3 time went into the, the calculation of net asset  
 4 value in that particular month, because it was  
 5 the only source of information we had about a  
 6 situation that was chaotic, as I keep saying.

7 BY MR. WILLIAMS:

8 Q. Sure.

9 A. So all of this is part of that. And  
 10 this is just one piece.

11 I don't know if Mr. Mannion was at home  
 12 one Sunday afternoon watching NFL football and  
 13 had a twelve pack and decided that this is what  
 14 he thought. I don't know.

15 What I do know is that this is not what  
 16 the NAV was determined to be at the end of the  
 17 period.

18 Q. All right. But you would agree with me  
 19 that Exhibit Number 20, at least the World Health  
 20 page, appears to --

21 A. Which is 20 again?

22 Q. It's the one that's right in front of

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1 you right now.

2 A. Got it. Okay. Thank you.

3 Q. That document appears to aggregate  
 4 Palisades's investments in World Health and tries  
 5 to explain how much those assets are worth.

6 And what I'm asking you is is there any  
 7 other document like that with respect to World  
 8 Health?

9 A. As I testified to, I think everything  
 10 that you've shown me contributes towards that to  
 11 what became Exhibit 22.

12 I would also point out that since I  
 13 know that this is just a tab in a bigger  
 14 spreadsheet, it was the same tab after we had  
 15 written the whole thing off.

16 So you're suggesting, using your logic,  
 17 one would have to argue that after we had already  
 18 taken the losses on this thing, right, that this  
 19 value was still there.

20 It just wasn't updated. It just wasn't  
 21 eliminated.

22 It was just a human error issue, and

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1 you guys have latched on to this thing like it's,  
2 like it's, you know, the third guy behind the  
3 grassy knoll or something like that.

4 This was just work product by one  
5 individual, not me, that had a belief about  
6 something that he put on paper that ultimately  
7 didn't come to fruition because our NAV was  
8 different, and that was established by both  
9 myself, Mr. Mannion and the administrators.

10 So at some point, this, whatever he was  
11 thinking that put, that prompted him to put this  
12 down, for whatever reason, is not where he ended  
13 up.

14 Q. Well, would you agree with me that,  
15 that the confidential offering memorandum for, at  
16 least for Palisades Equity Fund appears to  
17 contemplate that if you're going to deviate or  
18 make some determination that the, that a value of  
19 a security is not representative of a fair value,  
20 the basis for that determination is supposed to  
21 be reflected somewhere in a writing?

22 A. I don't disagree. And I think that, as

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1 I've said, and I'm, maybe I'm not doing it very  
2 well, but every e-mail, correspondence back and  
3 forth between Mr. Mannion and the administrators  
4 in that given month, any e-mail between myself  
5 and the administrators in that given month,  
6 would, from my view of this document, fall into  
7 that category.

8 Q. But you would agree with me that  
9 e-mails back and forth over a period of time are  
10 not a writing that explain a valuation?

11 A. No.

12 MS. LAMBRAKOPOULOS: Objection as to  
13 form.

14 Go ahead and answer.

15 BY MR. WILLIAMS:

16 Q. Would you agree with me?

17 A. I wouldn't, I wouldn't agree with you.

18 Q. I see. So to the extent that the  
19 offering documents call for a written explanation  
20 for the basis of the valuation, presumably that  
21 would be so that there exists some sort of --  
22 well, I don't mean to testify.

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1 Let me ask you as the, one of the  
2 principles of the manager of the fund, in your  
3 mind, why does, does the fund's offering  
4 documents call for a written explanation of how a  
5 particular asset has been valued?

6 A. You're asking me why was the offering  
7 memoranda written, why it was written, or how it  
8 was written?

9 Q. Well, let me, let me, let me strike the  
10 question and ask you a different question.

11 A. Okay.

12 Q. Were you aware that the offering  
13 documents required a written explanation that set  
14 forth the basis of the valuation in writing in  
15 the fund's records in about August and September  
16 2005?

17 MS. LAMBRAKOPOULOS: Objection as to  
18 form to the extent that your question presumes a  
19 requirement that may or may not be there.

20 But go ahead and answer.

21 (The court reporter asked for a  
22 clarification.)

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1 MS. LAMBRAKOPOULOS: Shall we have that  
2 read back?

3 THE WITNESS: No. I'm good. I just  
4 want to make sure that everybody's good. Okay.

5 I can't recall what I, what I remember  
6 of the PPM from August or September of 2005.

7 I would just say to you again that I  
8 believe that anything that was put in writing  
9 specific to World Health, because it's the only  
10 asset that ever went into a side pocket, it's the  
11 only time that this happened over a year, so as  
12 it related to this circumstance, and given the  
13 nature of the, the, the fraud of the company and  
14 the flux with financing and all of the other  
15 moving parts that went on, I believe that we met  
16 that requirement as you deemed it here in this,  
17 in this offering memorandum, with a lot of the  
18 backfill that was provided to the folks at  
19 Beacon, in order for them to get to where they  
20 got on Exhibit 22.

21 BY MR. WILLIAMS:

22 Q. And, and part of the e-mail

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1 communication that we've looked at going back and  
2 forth today are e-mail communications in which  
3 you are worried about showing a significant loss  
4 to the fund's investors, correct?

5 MS. LAMBRACOPOULOS: Objection to the  
6 extent that you're mischaracterizing his state of  
7 mind at the time that he wrote the e-mail.

8 But go ahead and answer.

9 THE WITNESS: I, I also think that, you  
10 know, the e-mails to those individuals were not  
11 the e-mails that I was referring to.

12 I was referring to e-mails between  
13 myself and the administrator or myself and other  
14 parties in the fact gathering.

15 You're -- you've asked me two  
16 questions, right?

17 One was how did you arrive at this  
18 valuation, and did you document how you arrived  
19 there?

20 And the other is well, did -- you had a  
21 bunch of e-mails where you were concerned about  
22 the fund.

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1 Well, sure. They're not mutually  
2 exclusive from one another.

3 One is we're having to gather  
4 information in order to come up with a number,  
5 and the other is, you know, either A, me  
6 expressing my feelings, or B, me trying to get  
7 somebody to do something that I need them to do  
8 for me.

9 BY MR. WILLIAMS:

10 Q. Okay. And let me show you a document  
11 that's previously been marked as an exhibit in  
12 this case, Exhibit No. 21.

13 (Pause.)

14 BY MR. WILLIAMS:

15 Q. And with respect to Exhibit No. 21, it  
16 appears to be a one-page document. It's an  
17 e-mail; subject header, WHAI update.

18 And my question to you, Mr. Reckles, is  
19 do you recognize this document?

20 A. I don't, but I see that it was sent to  
21 me.

22 Q. And it was sent from Les Elliott, and

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1 it appears to be asking yourself and Mr. Mannion  
2 for written documentation for why you feel you  
3 would be able to recover various positions as per  
4 your side pocket schedule.

5 Do you see that part of the document?

6 A. Oh, yeah, absolutely.

7 Q. And what was the written documentation  
8 that you provided to the fund administrator?

9 A. I don't know. I have no idea six and a  
10 half years later what he was aggregating.

11 I'm sure that you could probably  
12 produce it.

13 Q. I see. So as you sit here today, you  
14 don't know what it was?

15 A. No. I mean I would see copious amounts  
16 of e-mails and whatever.

17 You know, if you don't have the other  
18 side of this, I can't speak to what was provided.

19 Q. Okay. And --

20 A. I do note that its incorrect, but --

21 Q. You note that what's incorrect?

22 A. Well, his math is wrong. He's got the

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1 same promissory note twice in the e-mail.

2 I mean I'm not -- sure you noticed that  
3 too, but --

4 Q. Okay. Fair enough. And with respect  
5 to the document, it appears to be dated  
6 September 15th of 2005, that appears to be --

7 A. Yep.

8 Q. -- two days after the e-mail from Mr.  
9 Mannion in Exhibit 20, and --

10 A. Okay.

11 Q. -- it appears to reflect World Health  
12 common shares 950,000 and zero dollar recovery.

13 Do you see that part of the document?

14 A. We're back to Exhibit No. 21?

15 Q. Exhibit 21.

16 A. Yes, I see that.

17 Q. And I'm trying to, wonder, trying to --  
18 strike the question.

19 I'm wondering if you look at the World  
20 Health side pocket part of Exhibit No. 22, which  
21 is on --

22 A. Okay. I'm here.



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1 Q. And it appears to be --  
 2 A. And I want to make sure. Am I on 7412?  
 3 MS. LAMBRAKOPOULOS: He's using the  
 4 bottom numbers, 1600.  
 5 THE WITNESS: I'm sorry -- 1600?  
 6 BY MR. WILLIAMS:  
 7 Q. Yes.  
 8 A. Okay. I'm with you.  
 9 Q. Okay. And there appears to be a  
 10 reference to 950 shares of restricted stock  
 11 there?  
 12 A. Not on 1600.  
 13 Q. Oh, I'm sorry -- 1603. I apologize.  
 14 A. Okay. Thank you. All right. Okay. I  
 15 gotcha.  
 16 Q. There appears to be an indicated value  
 17 of 1,894,921 and change?  
 18 A. Okay.  
 19 Q. And that seems to be substantially  
 20 greater than what's reflected in the e-mail in  
 21 Exhibit 21 and on the schedule provided by Mr.  
 22 Mannion in Exhibit No. 20.

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1 And I'm wondering if you have an  
 2 explanation for that.  
 3 A. No. I mean I don't. I can only tell  
 4 you that there was, as I think we've discussed  
 5 earlier in the day, and as we discussed whenever  
 6 it was, a couple years back, I mean there were  
 7 ongoing conversations, as I can recall, about all  
 8 of this common stock being rolled into this  
 9 restructuring that we were doing under the Series  
 10 C preferred.  
 11 I don't remember at what point in time  
 12 those discussions, you know, ended for good, so I  
 13 don't know if ultimately that was part of what  
 14 was factored in, that we were factoring in, the  
 15 fact that we wouldn't have this common at the end  
 16 of the NAV period, but ultimately, the NAV is  
 17 based on August. It's not based on September.  
 18 So I guess what I would want to see is  
 19 what took place with the September NAV, which  
 20 would be reflected in, you know, e-mails probably  
 21 back and forth in October, right, because you're  
 22 always factoring, you're doing your NAV after the

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1 close of that month, right? So --  
 2 Q. Right.  
 3 A. -- as of August 31st, let's call it  
 4 September 1st at the outside, there was, in my  
 5 estimation, arguably enough going on to warrant  
 6 that the value of the common should be given some  
 7 credit because we were, at that point, under the  
 8 belief that it wasn't going to exist anymore,  
 9 this it was going to become series C preferred  
 10 and be valued back at its, you know, fully  
 11 invested value from earlier in the month.  
 12 So you can't overlap ten more days  
 13 because you're trying to calculate as of a date  
 14 that's already behind you, you know.  
 15 Q. So you're trying to calculate as of --  
 16 I don't follow your explanation.  
 17 You're trying to calculate as of a  
 18 prior period, correct?  
 19 A. Well, yeah. I mean we're talking about  
 20 August.  
 21 Q. Right.  
 22 A. On September 15th e-mails, but you're

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1 having to ascribe value to something based on  
 2 diligence and events that were taking place in  
 3 August, and in August, we were working towards a  
 4 local restructuring of the company, including the  
 5 disposition of this common stock going back to  
 6 the company in exchange for Series C preferred.  
 7 Q. And so in August, there were --  
 8 A. And it was ongoing even at this point.  
 9 Q. And do you recall exactly when it was  
 10 you filed your lawsuit against them?  
 11 A. No. No, I don't. We talked about that  
 12 earlier.  
 13 MR. WILLIAMS: I'm looking for a  
 14 document that I'm going to ask the court reporter  
 15 to label as Exhibit 45? Forty-four -- I'm sorry.  
 16 (Exhibit No. 44  
 17 was marked for  
 18 identification.)  
 19 BY MR. WILLIAMS:  
 20 Q. And you mentioned earlier that you gave  
 21 testimony, investigative testimony, in connection  
 22 with this investigation, correct?



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1 A. I did.  
 2 Q. And that was on or about May 14th,  
 3 2009?  
 4 A. Okay.  
 5 Q. Is that about right?  
 6 A. It says so right here.  
 7 Q. Okay. And I'm going to direct you --  
 8 and I'll represent to you that Exhibit No. 44 is  
 9 a transcript of that testimony.  
 10 A. Okay.  
 11 Q. And in connection with that testimony,  
 12 I'm going to direct you to page 100.  
 13 (The witness reviewed the document.)  
 14 THE WITNESS: So you're in the upper  
 15 right-hand corner of -- just make sure I'm in the  
 16 right place -- upper right-hand corner of a page  
 17 that's got a 26 at the very bottom?  
 18 BY MR. WILLIAMS:  
 19 Q. That's correct.  
 20 A. Okay.  
 21 Q. And you appear to be being asked  
 22 questions about a document that's been referred

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1 to as Exhibit No. 5, correct?  
 2 MS. LAMBRACOPOULOS: Well, why don't  
 3 you go ahead and read starting at page 100 down  
 4 to page 101 before he responds to the question?  
 5 So about two years ago.  
 6 THE WITNESS: I mean it says, "And  
 7 looking back at the side pocket there on  
 8 Exhibit 5..."  
 9 MS. LAMBRACOPOULOS: To yourself.  
 10 THE WITNESS: Okay.  
 11 (The witness reviewed the document.)  
 12 THE WITNESS: Okay. Go ahead.  
 13 BY MR. WILLIAMS:  
 14 Q. Okay. In Exhibit No. 22 that we've  
 15 been talking about today, as you look at the  
 16 first page of that document, does it appear that  
 17 Exhibit No. 22 was previously identified in the  
 18 investigation of this case as Exhibit No. 5?  
 19 A. Just bear with me. I have to figure  
 20 out which one is 22.  
 21 Okay. That's 22, and it says over here  
 22 No. 5. Okay.

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1 Q. Okay. So it appears that Exhibit  
 2 No. 22 was the document that you were being asked  
 3 about on page 100 of the transcript that I just  
 4 handed you?  
 5 A. Okay. I, I -- okay.  
 6 Q. As far as you know?  
 7 A. As far as I know, this one says five  
 8 over here, so he's asking me about a five here on  
 9 page 100.  
 10 Q. And I'll direct your attention to, in  
 11 particular to line No. 18 where it says question:  
 12 "It's 950,000 shares valued at \$1,894,921.67.  
 13 "That number is not consistent with the  
 14 number of shares times the current market price."  
 15 Answer: "Yeah, you're right."  
 16 Question: "Can you tell me how that  
 17 number -- "  
 18 Answer: "Somebody doesn't know how to  
 19 use a calculator.  
 20 "You know, when you started looking at  
 21 that line, I thought oh, that doesn't add up. It  
 22 should be like \$189,000. I think they

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1 just -- "... they just put in -- I think it  
 2 was just an error. And I don't know if this was  
 3 ultimately the final NAV statement that was  
 4 produced or not produced, you know, but that's  
 5 clearly incorrect."  
 6 Were you asked those questions, and did  
 7 you give those answers sir?  
 8 A. Could you repeat what you just said?  
 9 Q. Were you asked those questions, and did  
 10 you give those answers?  
 11 A. Yeah.  
 12 Q. And you were, you were under oath when  
 13 this testimony --  
 14 A. Sure.  
 15 Q. Okay. And let me show you another  
 16 document.  
 17 (Pause.)  
 18 BY MR. WILLIAMS:  
 19 Q. And this document is a document that's  
 20 previously been identified as Exhibit No. 17 in  
 21 this case.  
 22 And Mr. Reckles, have you seen Exhibit

1 No. 17 before?  
 2 A. Yes.  
 3 Q. And it appears to be a series of two  
 4 e-mails.  
 5 And what I want to ask you about in  
 6 particular is the one from mannion1@aol.com to  
 7 paul@hpccapital, cc various individuals,  
 8 including yourself, Andyreckles@aol.com, update  
 9 on World Health.  
 10 A. Okay.  
 11 Q. Did you play any role in drafting this  
 12 letter?  
 13 A. Some; I mean I seem to recall that I  
 14 helped with some of the, kind of the factual  
 15 background on, on World Health.  
 16 Q. To your knowledge, who participated in  
 17 drafting this letter?  
 18 A. Well, counsel, and Mr. Mannion, and I  
 19 seem to recall there was input from the  
 20 administrator as well.  
 21 Q. And when you say input from the  
 22 administrator, do you mean Mr. Sims, or someone

1 else?  
 2 A. I can't recall specifically.  
 3 Q. Okay. And do you recall the nature of  
 4 the input from the administrator?  
 5 A. No, I don't.  
 6 Q. Okay. Do you, do you have a sense of  
 7 who drafted the lion's share of that document?  
 8 A. You know, I don't really recall.  
 9 Q. Okay. Fair to say it's collaborative?  
 10 A. I think that's very fair to say.  
 11 Q. Okay. And it appears to be dated  
 12 September 8th, 2005.  
 13 Do you know if it was drafted on or  
 14 about that date?  
 15 A. I assume it was drafted in and around  
 16 there. It could have been drafted, you know,  
 17 multiple days before that.  
 18 Q. It appears --  
 19 A. I don't know if this is the final or a  
 20 draft or what have you.  
 21 Q. Okay. And the e-mail appears to have  
 22 gone to Mr. Dumbauld, who we referred to earlier

1 today.  
 2 A. Um-hm.  
 3 Q. And do you know why it would have been  
 4 sent to him?  
 5 A. Not specifically.  
 6 Q. Okay. And by the way, it's, it appears  
 7 to, Mr. Mannion appears to have sent the e-mail  
 8 cc to your AOL e-mail address.  
 9 Was it, was it, was it typical that you  
 10 received Palisades-type e-mails at the AOL e-mail  
 11 address?  
 12 A. Was it typical? You know, I guess it  
 13 was, it wasn't uncommon.  
 14 Q. Okay.  
 15 A. I think, you know, if, if everybody in  
 16 here has used Outlook, you know, it kind of  
 17 batches everybody by, once you're in there, by  
 18 name, so if you, I don't know if you type Andy  
 19 and that happened to be the first one in his  
 20 queue and you just hit enter, then that's where  
 21 it would go as opposed to maybe PEF Advisors  
 22 which might have been the third one in the queue

1 under my name in his Outlook, so I -- you know,  
 2 who knows?  
 3 Q. So, so would it be fair to say that  
 4 whether it be sent to your AOL address or your  
 5 HPC Capital address --  
 6 A. I would have received it.  
 7 Q. You would have received it?  
 8 A. Yeah.  
 9 Q. Or your PEF Advisors e-mail?  
 10 A. Sure. Absolutely.  
 11 Q. Okay. And you indicate, I think you  
 12 indicated -- correct me if I'm wrong -- that you  
 13 were responsible for some of the financial  
 14 information in this document, is that right?  
 15 A. I think factual --  
 16 Q. Factual -- okay.  
 17 A. -- is what I said.  
 18 Q. Factual in what respect?  
 19 A. Just -- excuse me. Just to some extent  
 20 what, what we had been doing or what I had been  
 21 doing in interfacing with folks at the company or  
 22 their attorneys in trying to give an overall

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1 update.  
 2 I mean I think that this was a, as it  
 3 says here, update on World Health, so since I was  
 4 doing a lot of that work with interfacing with  
 5 the folks over there, I had a lot of knowledge  
 6 that would need to go into, you know, a primer on  
 7 it, if you will.  
 8 Q. Okay. And directing your attention to  
 9 the bottom paragraph of the first page of the  
 10 document where it discusses Palisades's total  
 11 investment in World Health, do you see that part  
 12 of the document?  
 13 A. I do.  
 14 Q. And it refers to a 4.12 million in free  
 15 trading and restricted stock.  
 16 Where did that number come from?  
 17 A. I don't recall.  
 18 Q. Okay. Did it come from without -- did  
 19 it come from you, or someone else?  
 20 A. I don't recall.  
 21 Q. Okay. You don't know. Okay.  
 22 MS. LAMBRAKOPOULOS: I think his

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1 testimony was he doesn't recall.  
 2 BY MR. WILLIAMS:  
 3 Q. You don't recall, right?  
 4 A. Yeah.  
 5 Q. And on the second page, the third full  
 6 paragraph appears to, to indicate some various  
 7 financial information or sales information with  
 8 respect to World Health.  
 9 Do you know where that data came from?  
 10 A. I don't. I don't. I mean I can't  
 11 recall after six years.  
 12 Q. Sure, but you indicated that you were  
 13 the -- well, I don't mean to characterize what  
 14 you said before, but were you the primary point  
 15 of contact for World Health in terms of obtaining  
 16 information from the company, or no?  
 17 A. Yeah. And, and I don't think you're  
 18 mischaracterizing at all, but it's also been six  
 19 and a half years, right?  
 20 Q. Sure.  
 21 A. So I mean I just can't remember every  
 22 nuance and detail at this point.

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1 I mean to be frank with you, the last  
 2 time I saw this was probably two years ago May  
 3 the last time I was with Mr. Aderton over there,  
 4 and the last time I saw it prior to that was  
 5 probably when it was created.  
 6 So I've seen this document twice in its  
 7 almost seven years, and I just don't recall a lot  
 8 of the minutia.  
 9 Q. Sure.  
 10 A. I don't really want to speculate. I  
 11 don't think that would be beneficial.  
 12 So it's easier for me to say I don't,  
 13 don't recall.  
 14 Q. Okay. That's fair. And it refers to,  
 15 in the very last paragraph at the top of page 3,  
 16 a consent form in order to allow us to complete  
 17 the net asset values for August 2005.  
 18 And my question to you is, my first  
 19 question to you is what consent form were you  
 20 sending to investors?  
 21 A. I don't know which -- there were two.  
 22 There was the, the, what's called the 20 percent

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1 consent form, but there was the, the formation of  
 2 the side pocket, and I don't know if it was  
 3 either/or, both, or what have you.  
 4 Q. Okay. And my next question to you is  
 5 how would the consent form facilitate the  
 6 completion of the net asset value for August?  
 7 A. Yeah. I don't know. I don't know.  
 8 That's fair.  
 9 How it was phrased is, you know, why it  
 10 was phrased that way six and a half years ago, I  
 11 can't, I can't gather or hazard a guess.  
 12 Q. And let me ask you to look back at the  
 13 first page of the document under the line where  
 14 it says Dear Friends and Investors.  
 15 A. Um-hm.  
 16 Q. Do you find that part of the document?  
 17 A. Yes.  
 18 Q. And in the second sentence, it says by  
 19 opening this e-mail, you agree to hold this  
 20 information confidential and have restricted  
 21 trading in the security until this information  
 22 has been publicly disclosed by the company

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1 through a public filing.

2 And my question to you is what  
3 information was, was confidential such that  
4 trading had to be restricted?

5 A. I'm not sure that there was anything in  
6 there that was, was confidential.

7 I mean I think probably if I was  
8 rewriting this six and a half years later, I  
9 probably would say something more to the effect  
10 you should probably consult with your counsel as  
11 to whether or not any of the information  
12 contained herein would restrict you from trading  
13 in the security.

14 It's not my place to tell them whether  
15 any of this is not in the public domain or  
16 whether it is, what's confidential and what's  
17 not.

18 So I'm not sure that anything in here  
19 was, was not public or not, or was confidential.

20 Q. Would you agree with me that the  
21 statement gives the impression to the investor  
22 that the, that the common stock of the company

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1 couldn't be sold by Palisades --

2 MS. LAMBRACOPOULOS: Objection.

3 BY MR. WILLIAMS:

4 Q. -- at the time of the representation?

5 MS. LAMBRACOPOULOS: Objection. Calls  
6 for speculation.

7 THE WITNESS: Well, it's more than  
8 that.

9 You're asking me to agree with you as  
10 to how other people would feel upon receipt of  
11 this letter.

12 I can't possibly tell you what 68  
13 people might think.

14 BY MR. WILLIAMS:

15 Q. You were an investor at Palisades?

16 A. I was also the general partner in  
17 Palisades.

18 Q. And as an investor of Palisades, if you  
19 received this statement, would you have believed  
20 that the fund was, was unable to trade in the  
21 security until the public disclosure of the  
22 information contained in Exhibit No. 17?

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1 MS. LAMBRACOPOULOS: Objection. Calls  
2 for speculation.

3 Go ahead and answer.

4 THE WITNESS: Again, I want to be sure.  
5 You're asking me to tell you what I would think  
6 if I was an investor in Palisades based on the  
7 receipt of this letter and Palisades's ability to  
8 trade in the security?

9 BY MR. WILLIAMS:

10 Q. Yes.

11 A. I wouldn't have the foggiest. I  
12 wouldn't have the foggiest. Again, not, not  
13 attempting to be difficult, but I don't think it  
14 was a well-written letter, all things considered.

15 I think probably I would use different  
16 language, as I've already testified.

17 I think, you know, six and a half years  
18 older, a little bit wiser, God only knows, I  
19 would use, I would use different language.

20 And again, I'm not sure because you go  
21 into the third paragraph, all of these details  
22 are available for your perusal in the recently

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1 filed 8-Ks, which pretty much tells me that  
2 everything was already in the public domain.

3 So I'm not sure that the entire first  
4 paragraph was necessary.

5 Q. Okay. But you would, well, and I won't  
6 ask the question that way because maybe you won't  
7 agree with me.

8 A. Okay.

9 Q. But --

10 A. Thank you.

11 Q. But the statement that, that -- strike  
12 that.

13 A hard to value asset is -- would you  
14 agree with me that a publicly, a freely traded  
15 asset is not hard to value?

16 MS. LAMBRACOPOULOS: Objection. Can  
17 you repeat that?

18 MR. WILLIAMS: Sure.

19 MS. LAMBRACOPOULOS: I apologize.

20 BY MR. WILLIAMS:

21 Q. Would you agree with me that a freely  
22 traded security traded on a public exchange is

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1 not hard to value?

2 A. I think it's more of a facts and  
3 circumstances issue, but, you know, no, I don't  
4 think I can entirely agree with that.

5 I'm, I'm not a CPA. I understand that  
6 there's all sorts of stuff like mark to market  
7 accounting, and there's fair value accounting, so  
8 it's like saying that, you know, today because  
9 American Airlines told everybody a week ago that  
10 they filed for bankruptcy, but their stock is  
11 still trading at 80 cents. Well, why? Why? I  
12 can't explain that.

13 GM announced that they were going to go  
14 bankrupt. They did in fact go bankrupt, but the  
15 day before they went bankrupt, their stock was  
16 still trading at 60 cents.

17 If you were a mark to market accounting  
18 guy, you would have had to mark your books to 60  
19 cents, right? But the next day, it was zero.

20 So I don't know that you can always  
21 just that cut and dry say that a freely tradable  
22 publicly traded security can just be carte

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1 blanche, is easily valued.

2 It's facts and circumstances much like  
3 you know, the GM situation or the American  
4 Airlines situation or the World Health situation.

5 There was too many moving parts,  
6 including the potential for an entire global  
7 restructuring of the company.

8 Q. That's fair. And World Health  
9 ultimately did wind up in bankruptcy?

10 A. They ultimately did wind up in  
11 bankruptcy.

12 Q. And --

13 A. And not to interrupt you, but I think  
14 with all due respect, and with all fairness to  
15 Mr. Mannion and myself, 30 days later, the common  
16 stock was valued at zero in our portfolio,  
17 30 days later.

18 So there was enough evidence and  
19 movement in our knowledge base, right, and in our  
20 discussions with the company, and the positioning  
21 of the parties, that we were no longer confident  
22 that the common stock had any value.

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1 As a result of that, we did what was  
2 appropriate, and beginning in September NAV, you  
3 saw mark-downs, and, and continued throughout the  
4 process, so --

5 Q. Well, fair, fair point, but with  
6 respect to exhibit, for example, Exhibit  
7 No. 20 --

8 A. Twenty; 22.

9 Q. There's an indication in, on the World  
10 Health page of Exhibit No. 20 that you're holding  
11 right now --

12 A. Okay. Got it.

13 Q. There's an indication that as of  
14 September 13th, whoever drafted that particular  
15 page believed that the common stock of World  
16 Health was valued at zero as of right then,  
17 correct?

18 MS. LAMBRAKOPOULOS: Objection to the  
19 extent your question presumes that the author of  
20 this document had that belief, which is not in  
21 evidence.

22 MR. WILLIAMS: Okay. Well --

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1 THE VIDEOGRAPHER: The microphone.

2 THE WITNESS: I'm sorry. I wanted to  
3 pick something up.

4 MS. LAMBRAKOPOULOS: Do you want a  
5 minute break?

6 THE WITNESS: No. I don't need a break  
7 at all. I just want to get something because I  
8 can't do this in my head.

9 I apologize. It's like being that guy  
10 at the gas station that drives off with the thing  
11 in the gas tank without the fire.

12 Um, look --

13 MS. LAMBRAKOPOULOS: Was there a  
14 question?

15 THE WITNESS: Yeah.

16 BY MR. WILLIAMS:

17 Q. With respect to the page Bates number  
18 SEC-MANNION0301663, the indication that for, a  
19 value in terms of estimated recovery percentage  
20 for the World Health common shares is, is zero,  
21 correct?

22 A. That's what's on the page here.



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1 Q. Okay. And on Exhibit No. 21 --

2 A. Which is?

3 Q. The e-mail from Les Elliott to yourself  
4 and Mr. Mannion.

5 A. Got it.

6 Q. And what, what, what's the recovery  
7 estimated for the 950,000 common shares of World  
8 Health?

9 A. He shows zero recovery.

10 Q. Okay. And the, the NAV for August 2005  
11 indicates for the World Health common shares --  
12 and that's going to be in Exhibit 22.

13 A. Got it.

14 Q. It appears to be 1.89 million for the  
15 restricted and 110,000 for the common, correct?

16 A. Let's call it two million and 4,000 for  
17 both pieces, right?

18 Q. Right.

19 A. I think that's the math. Okay.

20 Q. Is that right?

21 A. Okay. So I'm just waiting if there's  
22 a -- is there a question?

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1 Q. No.

2 A. Okay.

3 Q. And I think I asked you this before,  
4 but I, I'll ask you again just to make sure.

5 When the Exhibit No. 17, the  
6 September 8 letter to friends and investors, was  
7 sent out, did the responses come to you, or to  
8 someone else?

9 A. You know, I don't recall where the  
10 responses went.

11 I mean I -- they, they could have gone  
12 to either the administrator, or they could have  
13 been faxed into the office.

14 They could have been e-mailed in to  
15 Paul.

16 They didn't come to me.

17 Q. And so if someone -- the e-mail  
18 appeared to have been sent to Mr. Mannion from  
19 Mr. Mannion's e-mail address or --

20 A. Right.

21 Q. So presumably someone replied.

22 A. Right.

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1 Q. It would have been to him. So my  
2 question to you is did you see any of the  
3 responses to the September 8, 2005, letter?

4 A. You know, I can't recall. I don't, I  
5 don't recall.

6 I know that, I know that they were  
7 received.

8 I seem to recall that there was a  
9 pretty overwhelming disposition towards the  
10 consents, you know, in the affirmative, so I just  
11 don't recall the specifics.

12 Q. And so when you say there was a pretty  
13 overwhelming affirmative, how do you know that?

14 A. Just, just from conversations with Mr.  
15 Mannion from years ago, I mean from back then.

16 Q. Okay. Any basis other than your  
17 conversation with Mr. Mannion?

18 A. No, none that I can recall.

19 MR. WILLIAMS: Why don't we go off the  
20 record for a minute?

21 THE VIDEOGRAPHER: We're going off the  
22 record.

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1 The time on the video is 3:12 p.m.  
2 (A recess was taken.)

3 THE VIDEOGRAPHER: We're back on the  
4 record.

5 The time on the video is 3:32 p.m.

6 BY MR. WILLIAMS:

7 Q. Mr. Reckles, we've talked about World  
8 Health, Palisades's investment in World Health in  
9 about August of 2005.

10 My question to you is during the time  
11 that Palisades was investing the four million and  
12 subsequent two million dollars into World Health,  
13 you personally were selling your World Health  
14 stock, correct?

15 A. I think I sold a very small percentage  
16 of it.

17 Q. A small percentage of your --

18 A. I sold some of my stock, yes.

19 Q. Why were you selling your stock?

20 A. Well, I mean I think -- excuse me. I  
21 think that -- I can't remember which one of these  
22 exhibits it is, but it was the one that gave the,

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1 the LP breakdown, ownership of the fund.  
 2 I don't remember which one it was. It  
 3 may have been this one.  
 4 Q. Exhibit 20?  
 5 A. You know, as I recall, by August of  
 6 '05, you know, I had somewhere in the fund in the  
 7 neighborhood of two, two point, two and a half  
 8 million dollars of my net worth, which is a  
 9 substantial portion of my net worth.  
 10 So I was a large investor in, in the  
 11 fund, and subsequently a large investor in, in  
 12 World Health through, through the fund.  
 13 I had received over the course of a  
 14 year, and I think we talked about this earlier on  
 15 a different exhibit that you put in front of me,  
 16 I can't recall quite where, I think it was the  
 17 one that I had to come back and clarify on,  
 18 but --  
 19 Q. Right.  
 20 A. -- that I had received a, a good  
 21 portion of my compensation in my investment  
 22 banking services throughout all of '04 and '05 in

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1 this company in restricted shares of stock, which  
 2 was again a very large percentage of my net  
 3 worth.  
 4 And at the beginning of the summer of  
 5 '05 when some of those restrictions were lifted,  
 6 I was able to sell some of those shares, and then  
 7 I was selling, if I remember correctly, in June  
 8 and July some of those shares.  
 9 And so there was a capital gains to be  
 10 considered, and at the point in time at the end  
 11 of August, when the shares went to wherever they  
 12 went at the end of August, it seemed like a very  
 13 sensible thing to do to be able to offset a lot  
 14 of the capital gains that I took in the earlier  
 15 part of the summer with these sales, you know.  
 16 I paid for, as you know, two, two sets  
 17 of a million, 22,000 shares that I had a cost  
 18 basis of over I think like \$3.00 a share, and if  
 19 you're selling it at 22 cents, you're able to  
 20 realize that loss.  
 21 And that was all. It was more I think  
 22 just personal kind of tax planning than anything

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1 else.  
 2 And I, and I maintained a very large  
 3 investment in it through, through the fund from  
 4 my perspective.  
 5 You know, I owned at that point, you  
 6 know, 5 or 7 percent of the total assets of the  
 7 management were, were mine, and we had a large  
 8 position in World Health, as we've discussed  
 9 here.  
 10 Q. And in August and September 2005, you  
 11 sold your entire position of free trading World  
 12 Health stock?  
 13 A. I don't believe I sold my entire  
 14 position.  
 15 I don't believe so.  
 16 MR. WILLIAMS: I ask the court reporter  
 17 to label this document as Exhibit No. 45.  
 18 (Exhibit No. 45  
 19 was marked for  
 20 identification.)  
 21 BY MR. WILLIAMS:  
 22 Q. And I'll represent to you that Exhibit

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1 No. 45 is a multiple page document Bates number  
 2 SEC-MANNION0016741 through 6746.  
 3 It appears to be a brokerage account  
 4 statement from Westminster Securities Corporation  
 5 in your name.  
 6 A. Yes, sir.  
 7 Q. And is this your brokerage account  
 8 statement in about August 2005?  
 9 A. Yes, sir.  
 10 Q. Okay. And directing your attention  
 11 specifically to the third page of the document,  
 12 it appears to reflect some selling activity in  
 13 the securities of World Health Alternatives, is  
 14 that correct?  
 15 A. Yes, sir. I see that.  
 16 Q. And there appears to be a sale in about  
 17 April 15th of 2005 of 125,000 shares at \$3.51 a  
 18 share.  
 19 And do you see that part of the  
 20 document? August 15th --  
 21 A. Yes, I do see that.  
 22 Q. And the 300, \$3.51 a share price, is

<p style="text-align: right;">Page 238</p> <p>1 that, was that typical of the, of the trading</p> <p>2 price of World Health prior to the situation that</p> <p>3 we spoke of earlier today with Mr. McDonald?</p> <p>4 MS. LAMBRAKOPOULOS: Objection as to</p> <p>5 form.</p> <p>6 Go ahead and answer.</p> <p>7 THE WITNESS: I mean I can only answer</p> <p>8 that, you know, with the very limited data in</p> <p>9 front of me based on what I see in front of me.</p> <p>10 And I see trades on August the 3rd at</p> <p>11 \$3.68, and I see trades on the 4th at \$3.83, and</p> <p>12 trades on the 9th at 3.69 and 64 and so on, so I</p> <p>13 think it's reasonably fair.</p> <p>14 I mean it's slightly lower than it was</p> <p>15 earlier in the month, but you know, plus or minus</p> <p>16 10 percent.</p> <p>17 BY MR. WILLIAMS:</p> <p>18 Q. And directing your attention to the</p> <p>19 last -- excuse me -- page Bates number</p> <p>20 SEC-MANNION0016745.</p> <p>21 A. Where? The same document?</p> <p>22 Q. The same document, page 4 of 7.</p>	<p style="text-align: right;">Page 240</p> <p>1 Do you see that transaction?</p> <p>2 A. I do.</p> <p>3 Q. And is that what you were talking about</p> <p>4 in terms of tax planning?</p> <p>5 A. That was taking a tax loss, yeah.</p> <p>6 Q. Okay. And was that -- did you, did you</p> <p>7 have a belief in about August 26, 2005, that</p> <p>8 World Health would recover?</p> <p>9 A. Well, I think, again, I've tried, I've</p> <p>10 tried to do this, again, I might be doing a real</p> <p>11 bad job of it, but I think that there's a very</p> <p>12 big difference between what, you know, that</p> <p>13 recovery meant.</p> <p>14 I didn't know what the outcome would</p> <p>15 be, right?</p> <p>16 I didn't know that the company would</p> <p>17 remain a public company.</p> <p>18 I didn't know that the company wouldn't</p> <p>19 be bought by some third party company.</p> <p>20 I didn't know that the company would</p> <p>21 decide to maintain being a reporting filing</p> <p>22 company.</p>
<p style="text-align: right;">Page 239</p> <p>1 A. Three, four -- okay.</p> <p>2 Q. There appears to be a sale indicated on</p> <p>3 August 26 of two thousand -- there appears to be</p> <p>4 a sale, a transaction on August 26, 2005, of</p> <p>5 World Health stock.</p> <p>6 Do you see that?</p> <p>7 A. I'm sorry. I don't follow you. I'm on</p> <p>8 page 4, but I don't -- am I looking at the</p> <p>9 wrong --</p> <p>10 Q. Oh, I think four and five are out of</p> <p>11 order.</p> <p>12 MS. LAMBRAKOPOULOS: Go to the next</p> <p>13 page.</p> <p>14 THE WITNESS: Oh, okay. All right.</p> <p>15 Yeah.</p> <p>16 MS. LAMBRAKOPOULOS: Four of five.</p> <p>17 THE WITNESS: Okay. I'm with you now.</p> <p>18 Thanks.</p> <p>19 BY MR. WILLIAMS:</p> <p>20 Q. Okay. And you appear to have sold</p> <p>21 approximately 380,000 shares of World Health at</p> <p>22 about 26 cents a share.</p>	<p style="text-align: right;">Page 241</p> <p>1 But I did believe that the assets that</p> <p>2 we held had value, because we held essentially</p> <p>3 debt.</p> <p>4 And so because of our position in the</p> <p>5 capital structure, I felt very secure that our</p> <p>6 recovery, our recovery, not necessarily World</p> <p>7 Health's recovery as much, but our recovery was</p> <p>8 very, very solid because when you're in the</p> <p>9 capital position that we were in in the capital</p> <p>10 structure, and based on our fundamental belief of</p> <p>11 what the business was worth, that even in a dooms</p> <p>12 day scenario, at least from our perspective, and</p> <p>13 what was later reported to us by their investment</p> <p>14 bankers Houlihan Lokey, that the value of the</p> <p>15 company in a bankruptcy sale, which is invariably</p> <p>16 where it went, should have been X, and based on</p> <p>17 the amount of debt that was ahead of us, we</p> <p>18 should have recovered almost 90 cents on the</p> <p>19 dollar on our debt.</p> <p>20 And this is all hindsight. This is all</p> <p>21 stuff that we learned in November and December,</p> <p>22 but, but we have, and they've been given to you</p>

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1 and you have them, we have discovery from the  
2 investment bankers that were tasked with the sale  
3 of the asset, and they did big reports and they  
4 showed us what they thought certain assets were  
5 worth and what the revenues were and all those  
6 different things.

7 And you could, you could do a cash flow  
8 analysis from those things.

9 Q. So when I, when I asked you whether or  
10 not you thought that World Health would recover,  
11 I think you indicated that, that you weren't, you  
12 weren't sure whether it would recover to its  
13 prior form, but you believed that the assets that  
14 you, that Palisades held were secure because of  
15 the form of asset is debt.

16 But, but my question is did you believe  
17 that, that World Health would recover as, as, as  
18 it had been originally constituted?

19 A. On August 31st, I didn't know -- oh,  
20 okay. I didn't know -- or August 26th or 31st,  
21 whatever, what have you, I didn't know what the  
22 final outcome would be.

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1 We were still only eleven days removed  
2 or twelve days removed or so from, you know,  
3 proverbial stuff hitting the fan, you know.

4 What I did know and what I continued to  
5 believe for a good period of time was that I felt  
6 that the company had enough value, the company,  
7 the business, okay, the business had enough value  
8 that we, we were better lending them the  
9 additional \$6 million than not because the  
10 business had value.

11 I believed that how we valued those  
12 assets from August to September to October to  
13 November was, was accurate, or had done at a  
14 minimum, to the best of our abilities given the  
15 information and data that we had, and our  
16 fundamental belief that the business had value.

17 Q. And so the sale that we see on  
18 August 26th of 2005, of 380 some thousand shares  
19 at 26 cents a share, that's not an indication  
20 that you didn't believe that World Health wasn't  
21 going to last?

22 A. No, not at all. I had, I had booked a

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1 very large profit personally.

2 I had spent an entire year working for  
3 the company from an investment banking  
4 perspective, receiving most of my remuneration in  
5 the form of restricted stock.

6 Most of the rest of my assets were tied  
7 up in my funds, so from a liquid capital  
8 position, it was essential for me to have the  
9 ability to pay my bills and things like that.

10 And these shares had been tied up for,  
11 in some cases ten, eleven months.

12 And when the stock price went to 22  
13 cents, it was an opportunity to reduce my tax  
14 burden on a lot of what I had sold earlier in the  
15 summer.

16 I mean just because you're -- I sold  
17 stock on the 26th, but I sold stock on June 26th,  
18 too. I didn't feel any different on June 26th.

19 Q. Do you recall what, do you recall when  
20 the Palisades advanced World Health an additional  
21 \$2 million?

22 Was it on or about that day?

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1 A. I believe it was before that day.

2 Q. Okay.

3 A. I seem to recall it was actually on my  
4 wife's birthday.

5 I seem to recall it was on the 24th.

6 Q. The 24th?

7 A. Um-hm.

8 Q. Okay. So two days later, you sold  
9 380,000 shares from your personal account at 26  
10 cents?

11 A. Um-hm.

12 MS. LAMBRACOPOULOS: You have to  
13 answer.

14 THE WITNESS: Oh, I'm sorry. Yes.

15 BY MR. WILLIAMS:

16 Q. I'm going to ask you -- and by the way,  
17 this document indicates that as of the end of  
18 August of 2005, you had 302,150 -- I'm looking at  
19 the last page of the document.

20 A. Got it. I'm with you.

21 Q. 302,150 shares of unrestricted World  
22 Health stock.

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1 And do you recall if you sold all of  
 2 those shares in about early September?  
 3 A. I don't recall. I don't recall.  
 4 Q. Okay.  
 5 A. And I know that, I notice I had another  
 6 480,000 of restricted.  
 7 Q. Of restricted?  
 8 A. Yeah.  
 9 Q. Okay. Can we turn to another subject?  
 10 And I'll show you a document that has been  
 11 previously marked as Exhibit No. 23.  
 12 And it appears to be a series of  
 13 e-mails with the subject Region account?  
 14 A. Okay.  
 15 Q. And it appears to be from Mr. Les  
 16 Elliott to Mr. Mannion.  
 17 And my question is -- and from Mr.  
 18 Mannion, it appears to have been forwarded to,  
 19 back to Mr. Elliott and to you, to your e-mail at  
 20 AOL.  
 21 And my question to you is with respect  
 22 to a transaction on July 19th, two thousand,

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1 2005, there appears to be reflected a \$2 million  
 2 deposit from PEF Advisors, and there's a question  
 3 of whether or not is this a subscription by PEF  
 4 Advisors, Limited, and then there appears to be a  
 5 response that this was PEF Advisors repaying  
 6 Palisades Master Fund for its two million  
 7 participation that was advanced by PMF.  
 8 And my question to you is are you  
 9 familiar with that transaction?  
 10 A. Yes.  
 11 Q. Can you explain what that transaction  
 12 was?  
 13 A. Yeah, I can. I, I'd be glad to. It's,  
 14 aside from the fact that as you would expect, I  
 15 completely disagree with your position in just  
 16 about everything in this entire scenario, this is  
 17 the one that, of all the things, sticks my craw  
 18 the most.  
 19 Q. Okay.  
 20 A. It just does. And I think it has a lot  
 21 to do with how your, your higher-ups did their  
 22 press release and how that was subsequently

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1 characterized in the press, and it's, it's pretty  
 2 shameful I mean I've got to tell ya.  
 3 This was, this is an non-event. With  
 4 the permission of the head of the administrative  
 5 firm, who also had the obligation to sign off on  
 6 any wires above a million dollars, so signed off  
 7 by the administrator, the fund who had money  
 8 on-shore, the, the advisor whose money was  
 9 off-shore, and couldn't make a closing date  
 10 on-shore on the same day because it took two days  
 11 to wire the money, couldn't hit for value date,  
 12 with the permission of everybody involved, the  
 13 people that are the gatekeepers advanced the, the  
 14 advisor money only after the advisor had already  
 15 wired the money back to the fund.  
 16 The fact that it hit the fund on the  
 17 19th shows that it was the next day, but it was  
 18 wired the same day.  
 19 The question I got asked way back in  
 20 May of '09 is do you feel like this was a  
 21 disclosure event?  
 22 No, I don't feel like it was a

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1 disclosure event.  
 2 We went to the administrator. If the  
 3 administrator felt like it was a disclosable  
 4 event, then he would have told us no, it can't be  
 5 done, and it needs to be disclosed if you want it  
 6 done.  
 7 It was not a problem. The  
 8 administrator knew that the funds were good.  
 9 They were in our account in the off-shore bank,  
 10 and he required that we advance wire those funds,  
 11 and we did, and they were received back into  
 12 Regions Bank the very next day.  
 13 I don't even think 24 hours elapsed,  
 14 but somehow or another, in Mr. Khuzami's  
 15 announcement, it made it look like we stole  
 16 \$2 million from the fund.  
 17 Come on. That's shameful, shameful,  
 18 guys. That's dirty pool.  
 19 Q. Can you explain the transaction?  
 20 A. I just did.  
 21 Q. What was the transaction?  
 22 A. We -- the transaction's right above



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1 that.  
 2 We were participating with our own  
 3 money.  
 4 Q. When you, when you say we --  
 5 A. We, the, the advisor -- I apologize.  
 6 PEF Advisors was purchasing \$2 million worth of a  
 7 World Health bond from a third party investor  
 8 that was selling their position.  
 9 Q. So PEF Advisors was investing in a  
 10 World Health bond?  
 11 A. Yes, with our own money.  
 12 Q. With PEF Advisors's money?  
 13 A. Yeah, with our own money.  
 14 Q. And the funds were paid to whom? To  
 15 the company, or someone else?  
 16 A. Oh, no. They were paid to the original  
 17 owner of the debt security, another fund.  
 18 Q. Is that Midsummer?  
 19 A. Yes.  
 20 Q. And the funds that were paid to  
 21 Midsummer came from Palisades's account, is that  
 22 correct?

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1 A. Yes, and were reimbursed the same day  
 2 by PEF Advisors.  
 3 Q. And the funds that went out of  
 4 Palisades were reimbursed into Palisades by PEF  
 5 Advisors?  
 6 A. Yeah.  
 7 Q. Is that right?  
 8 A. Immediately, same day. The same day  
 9 that they were wired out, they were wired back  
 10 in -- just a value date issue between an on-shore  
 11 and an off-shore wire.  
 12 Q. When you say a value date issue, what  
 13 does that mean?  
 14 A. It's just banking lingo. You can't  
 15 wire from an off-shore account to an on-shore  
 16 account and have it happen the same day. There's  
 17 no credit. At least that bank didn't.  
 18 Q. Okay.  
 19 A. It couldn't be credited the same day,  
 20 so we couldn't make the closing for the actual  
 21 transaction on the date ascribed for closing  
 22 unless we were wiring from on-shore.

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1 Q. And how did you know that you couldn't  
 2 make the closing?  
 3 A. Because we called the bank, and we said  
 4 hey, we need to have this money, you know, wired  
 5 today.  
 6 Well, Mr. Reckles, we can't do the --  
 7 you know, it will be value dated tomorrow.  
 8 Well, that's a problem, so --  
 9 Q. Was it you who spoke to the bank?  
 10 A. No. I was being, I was being  
 11 colloquial. I apologize.  
 12 I don't recall. I don't think it was.  
 13 Q. Okay.  
 14 A. I don't think it was.  
 15 Q. Were you on the call?  
 16 A. No. I very seldom worked with the  
 17 banks.  
 18 Q. Do you know --  
 19 A. But I know enough about the interplay  
 20 that you couldn't value date.  
 21 I mean I've wired money before. I've  
 22 been -- I've done it before.

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1 May not have been this circumstance.  
 2 Q. Do you know who, who was responsible  
 3 for this transaction?  
 4 A. It was either, it was either myself or  
 5 Paul Mannion.  
 6 I can't recall specifically who talked  
 7 to the bank and wired the money.  
 8 Q. I see. So it was either you or Mr.  
 9 Mannion?  
 10 A. Yeah. Absolutely.  
 11 Q. And so the bank informed you that  
 12 because of what do you say? Value date?  
 13 A. Value date; it can't make it to a U.S.  
 14 bank the same day.  
 15 Q. Okay.  
 16 A. So --  
 17 Q. So --  
 18 A. We called the administrator. Well, I'm  
 19 sorry.  
 20 You want to ask a question -- please.  
 21 Q. So because it couldn't happen the same  
 22 day, you asked the administrator to advance the

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1 funds from Palisades because Palisades was  
2 on-shore?

3 A. Yeah. They were a bank at Regions  
4 Bank, which is, as you probably know, is a U.S.  
5 bank based in Alabama.

6 Q. Okay. And what did the administrator  
7 say when you asked the administrator to forward  
8 the funds from Palisades's account?

9 A. Well, he gave his permission, and he  
10 actually had to sign off.

11 Q. And you've indicated that, that PEF  
12 replaced the funds --

13 A. Absolutely.

14 Q. -- the next day, is that right?

15 A. Actually, the same day. In, in real  
16 world time, it was received the next day. That's  
17 the whole value date thing.

18 It was back in the account on the 19th,  
19 but it was actually submitted the same day,  
20 because we couldn't wire from our, our account,  
21 the advisory account, on the 18th and have it hit  
22 the closing account for the transaction on the

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1 18th.

2 We just moved the instructions to have  
3 it hit the Regions account for Palisades.

4 Whether it was twelve hours later or  
5 ten hours, I can't even tell you at what point in  
6 time on the clock that account saw the money, but  
7 it was less than 24 hours.

8 It was probably less than 12 hours.

9 Q. So why, why, why did you delay the  
10 closing?

11 A. We had, we had an investor that wanted  
12 to be out of this position.

13 Q. So you couldn't delay the closing?

14 A. We, we didn't delay the closing. You  
15 know, in hindsight, we probably could have. In  
16 hindsight, we probably could have.

17 I never would have dreamed, and I still  
18 have a hard time -- as you can probably tell from  
19 my tone, it's just very agitating to me that this  
20 is, that this is why we're here.

21 I mean this is, this is silly. It's  
22 silly. When there's so much other stuff out

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1 there, this is silly.

2 Q. Well, let me, let me --

3 A. That's just my opinion, sir; just my  
4 opinion.

5 Q. Fair enough. Let me, and let me ask  
6 you in respect to your, your characterization, do  
7 you think that it's inconsequential that  
8 Palisades funds were used for the benefit of some  
9 entity other than Palisades?

10 A. I would say to you that if this was  
11 anything other than what exactly happened here,  
12 then I think it would be consequential, and I  
13 believe that it would require a disclosure.

14 However, because the money was, was  
15 moving at the same time, it was literally  
16 crossing in, you know, in the air, it was, there  
17 it was, it was of an inconsequential nature. It  
18 was a non-event.

19 And had it been consequential, I would  
20 have relied on the administrator to tell us that  
21 you cannot do it because at the end of the day,  
22 it's his job.

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1 So if he felt, if he felt that it was  
2 inconsequential, if he felt that it was not a  
3 matter that required disclosure, if he felt that  
4 he had no problem not only allowing, but because  
5 any wire over a million out of Regions required  
6 an A and a B signature and he was one of those  
7 signatures, right, so if he signed off and agreed  
8 to the wire, then I have to suggest that, then I  
9 have to suggest that --

10 Q. Why don't we -- I apologize for  
11 interrupting your answer.

12 Why don't we go off the record briefly?

13 THE VIDEOGRAPHER: This concludes Tape  
14 No. 4 of the video deposition of Andrew Reckles.  
15 The time on the video is 3:55 p.m.

16 We're off the record.

17 (Pause.)

18 THE VIDEOGRAPHER: This begins Tape No.  
19 5 in the video deposition of Andrew Reckles. The  
20 time on the video is 3:58 p.m.

21 We are on the record.

22 BY MR. WILLIAMS:

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1 Q. Okay. Mr. Reckles, you indicated that  
2 you believed that the movement of the \$2 million  
3 that we've been speaking of was I think as you  
4 put it a non-event.

5 And my question to you is do you think  
6 it's significant, or, or, or, or do you think  
7 it's significant that the assets of Palisades are  
8 used for a purpose other than investment for the  
9 benefit of the fund?

10 MS. LAMBRACOPOULOS: Objection as to  
11 form.

12 THE WITNESS: You know, I think I've  
13 testified how I feel about this issue.

14 BY MR. WILLIAMS:

15 Q. Okay.

16 A. I think I've testified. I think that  
17 the instance in question, in my estimation, and I  
18 believe it to this day, it's a non-issue.

19 I think that any reasonable person,  
20 when shown the facts here, any reasonable person,  
21 that the gatekeeper had given permission, the  
22 gatekeeper had actually wired the funds, and that

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1 the funds were replaced in real terms at the same  
2 time, other than a value date issue, which is  
3 just banking lingo for a lag time between an  
4 off-shore and on-shore account, I think any  
5 reasonable person or peer would think that this  
6 was a non-event.

7 Q. And when you speak of the gatekeeper,  
8 you're referring to the fund administrator?

9 A. Yes. Yes.

10 Q. And how did the fund administrator come  
11 to be the administrator of the fund?

12 A. He was hired.

13 Q. By whom?

14 A. By the fund.

15 Q. Who made the decision to hire the  
16 administrator?

17 A. I can't recall. I would, I would  
18 speculate that it was Paul and myself whenever  
19 that decision was made.

20 He came highly recommended. I remember  
21 that.

22 Q. I see. And with respect to the fund

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1 administrator being the gatekeeper, is that the  
2 reason why you think that this, that the transfer  
3 of the \$2 million was a non-event, because the  
4 fund administrator approved it?

5 A. I think that's only part of the overall  
6 picture.

7 Q. Okay.

8 A. I think you have to take the entire  
9 facts and circumstances of this issue and look at  
10 it for what it was.

11 We had permission. It was paid back in  
12 real time at the same time.

13 Q. Okay.

14 A. In fact, the wire to pay back the money  
15 that was wired to, on behalf of PEF happened at  
16 the same time that the wire to PEF was done.

17 Q. Okay.

18 A. Because they both had to be done with  
19 the administrator.

20 Q. If the wire had taken place a day  
21 later, do you think that that would have been an  
22 issue?

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1 A. I don't think --

2 MS. LAMBRACOPOULOS: Objection. Calls  
3 for speculation.

4 THE WITNESS: My personal opinion?

5 BY MR. WILLIAMS:

6 Q. Yes, sir.

7 A. Is that it wouldn't have happened any  
8 other way. It wouldn't have happened.

9 Q. Why is that?

10 A. Because if the circumstances had been  
11 such that we could not pay back at the same time,  
12 then we wouldn't have even done it. We wouldn't  
13 have even asked.

14 We knew we had -- I'm sorry. We knew  
15 that we had the funds.

16 It wasn't -- we're already taking more  
17 time on this than I think it's worth. I'm sorry.

18 Just if, if it was another day or two,  
19 we wouldn't have done it.

20 If we didn't have the money to pay back  
21 at the same time, except for the value date  
22 issue, we wouldn't have done it.

<p style="text-align: right;">Page 262</p> <p>1 Q. Why?</p> <p>2 A. Just because it's a lot of money, but</p> <p>3 because of the facts and circumstances here, I</p> <p>4 view it as a non-event because we had the money.</p> <p>5 It all transferred at the exact same</p> <p>6 time because Dave Sims was responsible for being</p> <p>7 involved in both wires.</p> <p>8 He was pulling the trigger on the wire</p> <p>9 to pay back the fund at the same time as he was</p> <p>10 pulling the trigger to wire the money for the</p> <p>11 benefit of the advisor.</p> <p>12 It all happened at the same time. It's</p> <p>13 just a value dating issue.</p> <p>14 What would you -- you know, I'm not</p> <p>15 probably allowed to ask you questions, but what</p> <p>16 would --</p> <p>17 MS. LAMBRACOPOULOS: Let's not ask</p> <p>18 questions.</p> <p>19 THE WITNESS: Okay.</p> <p>20 MS. LAMBRACOPOULOS: Let's wait for his</p> <p>21 question.</p> <p>22 THE WITNESS: Okay.</p>	<p style="text-align: right;">Page 264</p> <p>1 A. Because that, that wouldn't be right.</p> <p>2 Q. Okay.</p> <p>3 A. That wouldn't be right.</p> <p>4 Q. Let me show you another document that's</p> <p>5 previously been marked as Exhibit 24.</p> <p>6 And Mr. Reckles, I'll represent to you</p> <p>7 that Exhibit No. 24 is a three-page document that</p> <p>8 appears to be an e-mail communication from Mr.</p> <p>9 Elliott to Mr. Mannion and yourself dated August</p> <p>10 10th, 2005; subject, July 2005 NAV.</p> <p>11 And my question to you is have you ever</p> <p>12 seen this document before?</p> <p>13 A. You know, I mean I'm on the</p> <p>14 distribution list.</p> <p>15 I'm sure I've seen it at some point</p> <p>16 five years ago.</p> <p>17 Q. Okay. And the questions I have for you</p> <p>18 pertain to the second page of the document.</p> <p>19 A. Okay.</p> <p>20 Q. And there appears to be a bolded</p> <p>21 paragraph or bolded sentence or bolded paragraph</p> <p>22 that begins PEF Advisors, Limited.</p>
<p style="text-align: right;">Page 263</p> <p>1 BY MR. WILLIAMS:</p> <p>2 Q. Okay. And you had indicated that if it</p> <p>3 had been a day later, that Palisades, that if PEF</p> <p>4 hadn't had the funds a day later, you wouldn't</p> <p>5 even have asked to do it?</p> <p>6 A. Absolutely.</p> <p>7 Q. Do you, do you believe it was improper</p> <p>8 to do it?</p> <p>9 MS. LAMBRACOPOULOS: Objection. Calls</p> <p>10 for a legal conclusion.</p> <p>11 THE WITNESS: I don't know that I can</p> <p>12 answer that in terms of what's proper or not</p> <p>13 proper.</p> <p>14 We just -- I wouldn't have done it.</p> <p>15 BY MR. WILLIAMS:</p> <p>16 Q. Based on your judgment as the --</p> <p>17 A. Well, my judgment, we wouldn't have</p> <p>18 done it.</p> <p>19 If I didn't know that I already had the</p> <p>20 money to pay back, I wouldn't have done it,</p> <p>21 absolutely.</p> <p>22 Q. Why?</p>	<p style="text-align: right;">Page 265</p> <p>1 Do you see that part of the document?</p> <p>2 A. I do.</p> <p>3 Q. And it indicates that PEF Advisors,</p> <p>4 Limited, owes Palisades Master Fund \$12,803.09</p> <p>5 for the purchase of their portion of Bluefly</p> <p>6 warrants and the Beacon invoice which PMF paid on</p> <p>7 behalf of PEF Advisors, Limited.</p> <p>8 And my question to you is did Palisades</p> <p>9 Master Fund purchase Bluefly warrants for PEF</p> <p>10 Advisors?</p> <p>11 A. Did Palisades -- not to my</p> <p>12 recollection.</p> <p>13 I don't recall.</p> <p>14 Q. Do, do you understand what Mr. Elliott</p> <p>15 is referring to in that sentence?</p> <p>16 A. Well, I mean I can see what he's</p> <p>17 referring to.</p> <p>18 I don't, I don't have a recollection of</p> <p>19 it.</p> <p>20 Q. Okay. And in your opinion, would it be</p> <p>21 appropriate for Palisades Master Fund to purchase</p> <p>22 warrants for PEF Advisors?</p>

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1 A. I, I'd have to know more about the  
2 facts and the circumstances. I mean I really  
3 would.

4 This is -- I just don't have a  
5 recollection, so if I had more, more data, I  
6 could, I could better answer your question.

7 Q. Okay, but given what the sentence says,  
8 you can't --

9 A. It's hard for me to give you any kind  
10 of reasonable answer other than I see here that  
11 PEF Advisors, Limited, owes Palisades Master Fund  
12 \$12,803 that is made up of a sum of money split  
13 between, in some percentages, an invoice which I  
14 don't quite understand because I don't know how  
15 PEF Advisors, Ltd., could ever have an invoice  
16 payable to Beacon because we were the  
17 administer -- we were the advisor to the fund.  
18 We weren't the fund.

19 And the fund was the one that would  
20 have the invoice, so I'm not sure that I even  
21 understand that component.

22 And then I don't have any detail around

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1 the warrant exercise, so I -- yeah.

2 Q. Were you aware that Palisades Master  
3 Fund ever funded, other than what we've talked  
4 about with respect to the \$2 million, were you  
5 aware that the Palisades Master Fund ever funded  
6 investments on behalf of PEF Advisors?

7 MS. LAMBRAKOPOULOS: Objection to the  
8 extent your questions presume the earlier  
9 transaction was a funding by Palisades.

10 MR. WILLIAMS: Okay.

11 MS. LAMBRAKOPOULOS: Go ahead and  
12 answer.

13 THE WITNESS: Actually, I wasn't until,  
14 until you sued us.

15 BY MR. WILLIAMS:

16 Q. Okay. That was your first inkling?

17 A. Didn't know it.

18 Q. Okay. And in your opinion, would it be  
19 inappropriate for Palisades Master Fund to fund  
20 investments on behalf of PEF Advisors, Limited?

21 MS. LAMBRAKOPOULOS: Go ahead and  
22 answer.

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1 THE WITNESS: Okay. Again, it's a  
2 facts and circumstances issue just like I  
3 answered relating to the, the other matter.

4 I'd have to know a lot more facts and  
5 circumstance.

6 I'd have to understand what the details  
7 were, whether the funds were available for  
8 immediately, immediate repayment, whether it was  
9 authorized by the administrators, et cetera, et  
10 cetera.

11 BY MR. WILLIAMS:

12 Q. Is that sort of transaction something  
13 that should be disclosed to investors or limited  
14 partners in the fund so that they can evaluate  
15 the facts and circumstances of various  
16 transactions?

17 A. You know, I don't believe that in the  
18 case of the \$2 million, knowing those facts and  
19 circumstances, that it, that it needed to be.

20 Because I don't know enough of the  
21 facts and circumstances relating to the Bluefly  
22 warrant, I can't really answer that well.

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1 It's possible that should have been  
2 disclosed based on the facts and circumstance,  
3 but without knowing them, I can't say  
4 unequivocally yes.

5 Q. Well, let me you ask this. Did you  
6 have conversations with the auditors for the  
7 Palisades Master Fund at the end of, for the 2005  
8 annual audit?

9 A. You know, believe it or not, I never in  
10 seven years spoke to auditors.

11 Q. You never had a conversation?

12 A. Never spoke to the auditors.

13 Q. So would it be fair to say that all the  
14 conversations involving Palisades and its  
15 auditors involved Mr. Mannion?

16 A. I think that, between the two of us,  
17 yes, that would be correct.

18 Q. Okay. As between you and Mr. Mannion,  
19 it was always Mr. Mannion dealing with the  
20 auditors, is that fair?

21 A. Yes, sir.

22 Q. Who else in connection with the fund



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1 dealt with the auditors, to your knowledge?

2 A. The administrators.

3 Q. Beacon?

4 A. Yes. Yes.

5 Q. Okay. Do you know who at Beacon  
6 participated in the audit?

7 A. I don't.

8 Q. Okay. And let me show you another  
9 document that I -- was previously marked as  
10 Exhibit No. 25.

11 And I'll give you a moment to look at  
12 it.

13 (The witness reviewed the document.)

14 THE WITNESS: Okay.

15 BY MR. WILLIAMS:

16 Q. Exhibit No. 25 appears to be a two-page  
17 document to investors of the Palisades Equity  
18 Fund, LP.

19 And do you recognize this document?

20 A. No, I mean other than looking at it  
21 now.

22 Q. Okay. And what I want to ask you about

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1 is on the second page of the document, it appears  
2 to have been from PEF Advisors, LLC?

3 A. Okay.

4 Q. And my question to you is given it  
5 appears to be signed PEF Advisors, LLC, would you  
6 have had a role in the drafting of this document?

7 A. It's, it's possible.

8 Q. Okay.

9 A. It's possible.

10 Q. Is it fair to say it would have been  
11 either you or Mr. Mannion?

12 A. Or both.

13 Q. Or both?

14 A. Collaboratively, as we said earlier.

15 Q. And is this the sort of document that  
16 appears to be a letter to investors describing  
17 the return on, from Palisades Equity Fund, LP, is  
18 this the type of document that you and Mr.  
19 Mannion would collaborate on?

20 A. Yeah. I think that's, I think that's a  
21 fair statement.

22 Q. Okay. And what I want to ask you about

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1 in particular is the second to last paragraph of  
2 the document on the second page.

3 It says also we are reducing our  
4 personal redemption amounts by 162, five each,  
5 162,500 each, to reflect a transfer of World  
6 Health Alternatives, Inc. warrants in  
7 August 2005.

8 And my question to you is are you  
9 familiar with that transaction?

10 A. Yes, sir.

11 Q. And how did you come to transfer World  
12 Health Alternatives warrants to yourself?

13 A. Well, we were, we, that's -- the fund  
14 was asked to exercise, and I believe one of the  
15 other documents here we, we, we actually account  
16 for that, a lot of our warrant holdings in the  
17 company going into the, whatever it was, second  
18 or third quarter of earnings call, we received  
19 that request from the CEO, Mr. McDonald.

20 By August the, whatever you call it,  
21 first or so, you know, the fund had in its, under  
22 its ownership, enough World Health, in our

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1 estimation, that we didn't want to invest more  
2 money into World Health.

3 We were comfortable with our position  
4 obviously until fifteen days later and the world  
5 changed for us.

6 But we, we agreed the company needed  
7 the capital. They requested the capital. They  
8 wanted the warrants overhang removed from their  
9 balance sheet, and Paul and I determined that  
10 since we valued all warrants on our balance sheet  
11 at zero, so that it was an asset of no  
12 consequence or value to the net assessment value,  
13 that we would use our own capital to inject the  
14 capital into World Health that needed the money.

15 In hindsight, it was a terrible  
16 decision, terrible decision for a lot of  
17 different reasons, one of those reasons being we  
18 lost all the money, so that's, that's never a  
19 good thing. You lose a million dollars.

20 And then secondarily, it just, it just  
21 wasn't the right thing to do. It just wasn't the  
22 right thing to do.

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1 The funds should have just lost the  
2 assets, you know.

3 But the fund, you know, in hindsight,  
4 the fund should have just invested the money or  
5 not invested the money.

6 We self-disclosed it. I in fact  
7 disclosed it to the SEC myself voluntarily in  
8 investigative testimony back in Philadelphia in  
9 2005 or six or whenever it was, and we  
10 self-penalized.

11 We, we took -- we already lost a  
12 million dollars. I mean all the shares were  
13 effectively, you know, they were converted at  
14 whatever they were converted at, \$2.80 or  
15 whatever. I can't remember the exact amount.

16 I know I wired roughly a million  
17 dollars, and I got back roughly, you know,  
18 nothing, so I mean it was a substantial loss of  
19 principal value.

20 And then we took the balance of the  
21 loss, and I think we, I think we self, you know,  
22 self --

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1 Q. Go ahead.

2 A. Self-flagellated or whatever term you  
3 want to use appropriately. It was disclosed to  
4 the shareholders. It was -- we paid for it. We  
5 paid back the fund more than I think -- the asset  
6 had no value, so we actually paid the fund money  
7 for something that it carried at a zero value in  
8 the first place, but we, that's what we did.

9 Q. I see. And when you say you  
10 self-disclosed, you didn't disclose it at the  
11 time of the assignment, correct?

12 A. No. No.

13 Q. And this, this document that we're  
14 looking at, Exhibit No. 25, do you know what,  
15 when this document was, was sent to investors?

16 A. No. Actually I was actually going to  
17 ask you if you could tell me what the date was.  
18 It's not on the document, so I --

19 Q. It's not on the document.

20 A. Yeah, so I don't recall.

21 Q. Okay. It appears to refer to, on the,  
22 in the preceding paragraph, it refers to a

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1 redemption request pending for June 30 of 2006?

2 A. Yeah. I, I see that.

3 Q. And on the first paragraph, it appears  
4 to refer to a net return of negative 4.38 percent  
5 for the month of May.

6 Do you think this document could be  
7 from some time in June of 2006?

8 A. Well, my read is it's going to be some  
9 time between May 1st and let's say June 15th,  
10 somewhere in that range probably.

11 Q. Of 2006?

12 A. Yeah. That's what it looks like. It's  
13 a best guess based on what's within the document.

14 Q. Okay. And you mentioned that you had  
15 disclosed this in testimony to the, to the SEC in  
16 Philadelphia, correct?

17 A. Yes.

18 Q. Do you recall approximately when that  
19 testimony was?

20 A. I don't.

21 Q. Okay.

22 A. I don't.

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1 Q. Did you, do you know if Palisades  
2 auditors were ever told about this assignment in  
3 connection with the 2005 year-end audit?

4 A. Well, I've already testified that I  
5 never spoke to the auditors.

6 Q. Okay. Do you know if the assignment  
7 was reflected in the books and records of  
8 Palisades Master Fund in about August of 2005?

9 MS. LAMBRACOPOULOS: Objection as to  
10 form.

11 THE WITNESS: You know, I don't. I'd  
12 have to go back and look.

13 I just don't -- I don't know if the  
14 warrants spreadsheet, for example, was updated  
15 for September.

16 BY MR. WILLIAMS:

17 Q. Okay. Whose responsibility would that  
18 have been?

19 A. Mr. Mannion kept that, so it's one of  
20 these things.

21 Q. Are you looking at Exhibit No. 20?

22 A. Yeah, but this is -- the dates would be

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1 off by a month. I'd be looking for the following  
2 month. That's where -- because this is, this is  
3 August.

4 Q. This would pertain to August?

5 A. Yeah, but I don't know when. Actually,  
6 yeah, it's reflected there.

7 Q. Where is it?

8 A. Well, the -- it's, a lack of being  
9 there is reflecting that the warrants are no  
10 longer, that the warrant position is updated, so  
11 it doesn't, it doesn't exist.

12 Q. And where are you looking on this  
13 document?

14 A. I'm sorry. I'm looking at 1662.

15 Q. Okay.

16 A. Well, if, if we, we were holding a  
17 World Health warrant, then it would be one would  
18 think after Wave Rider alphabetically, so --

19 Q. So you take it by virtue of the fact  
20 that it just doesn't appear on this sheet?

21 A. Yeah, unless there's another page that  
22 you just haven't included in this exhibit, I'm

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1 just assuming that by, by virtue of it not being  
2 there, that, that the books and records have been  
3 updated to the administrators and reflect that.

4 Q. I see. And that's your basis about  
5 what you're looking at, this page?

6 A. That's all I have to -- in front me,  
7 so --

8 Q. Fair enough. Let me hand you a  
9 document that I'll ask the court reporter to  
10 label as Exhibit No. 46.

11 (Exhibit No. 46  
12 was marked for  
13 identification.)

14 BY MR. WILLIAMS:

15 Q. And Exhibit No. 46 is a one-page  
16 document Bates number SEC-MANNION0298998.

17 And it appears to be a fax cover sheet  
18 from PEF Advisors, LLC.

19 And my question to you, Mr. Reckles, is  
20 do you recognize the handwriting on this  
21 document?

22 A. Yeah. Sure.

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1 Q. Whose handwriting is it?

2 A. It's mine.

3 Q. Yours?

4 A. Absolutely.

5 Q. And does this pertain to the assignment  
6 that we've, we've just been speaking of?

7 A. It would appear to, yes.

8 Q. Okay. And it indicates "...issue  
9 unlegended shares pursuant to the Post Effective  
10 Amendment that we are individually covered on!"

11 Do you see that part of the document?

12 A. Um-hm.

13 Q. And is that a reference to a  
14 registration statement, or something else?

15 A. Well, it's a, it's a reference to a  
16 post effective amendment to a registration  
17 statement, yes.

18 Q. Okay. And that's something that, that  
19 you and Mr. Mannion were covered on?

20 A. Well, I believe we were listed as  
21 selling shareholders on the post effective  
22 amendment.

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1 Q. Okay. And what effect would that  
2 document have in terms of your ability to sell  
3 the stock?

4 A. Perhaps I don't follow the question.

5 Q. What, what's the significance of it  
6 being listed in the post effective amendment to a  
7 registration statement?

8 A. Well, I mean I'm not a securities  
9 lawyer, but my understanding is that it --

10 Q. I understand.

11 A. -- it allows the shares to be traded.

12 Q. And was that your intention upon  
13 exercising a warrant, to trade the shares?

14 A. Not initially; I mean not immediately,  
15 not immediately; at some point certainly.

16 Q. Okay. Did you, were you -- did you in  
17 fact sell the shares in August of 2005 almost  
18 immediately after the shares hit your account?

19 A. Not almost immediately.

20 Q. Okay. Let's go back and look at  
21 Exhibit No. 45.

22 A. Forty-five -- oh, thank you. Okay.

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1 Q. And referring you to the fifth page of  
 2 the document --  
 3 A. Now is this page 5 of 7, or actually  
 4 number --  
 5 Q. The fifth page of the document, which  
 6 says page 4 of 7.  
 7 A. Okay.  
 8 Q. Okay?  
 9 A. Okay.  
 10 Q. And there's an indication in terms of  
 11 withdrawals and deposits of securities, and  
 12 there's one on 8/12/2005 from World Health in the  
 13 amount of 522,198.  
 14 Do you see that?  
 15 A. Okay. I do.  
 16 Q. And is that the shares that you  
 17 received pursuant to the assignment?  
 18 A. I don't know.  
 19 Q. I would like to refer you to your  
 20 answers to interrogatories --  
 21 A. Okay.  
 22 Q. -- that's found in Exhibit No. 38.

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1 A. Fair enough. Fair enough. Yeah. Let  
 2 me -- I remember that that was in fact in there.  
 3 I've just got to find which document that is.  
 4 Keep going. I'm jumping back and forth. I'm not  
 5 keeping anything in order.  
 6 Interrogatory 3, 522.  
 7 (The witness reviewed the document.)  
 8 THE WITNESS: Okay. I've got it now.  
 9 BY MR. WILLIAMS:  
 10 Q. And looking back at Exhibit 45, the  
 11 brokerage account statement, directing your  
 12 attention to the third page of that statement,  
 13 would you agree with me that --  
 14 A. Page 3.  
 15 Q. Yeah.  
 16 A. Okay.  
 17 Q. Would you agree with me that on that  
 18 same day, August 12, 2005, you sold 25,000 shares  
 19 of World Health's common stock?  
 20 A. Well, I would also say that I sold a  
 21 hundred thousand on the 4th, and that wasn't the  
 22 12th. That was the settlement date.

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1 It was actually sold on the 9th. You  
 2 have to read transaction date.  
 3 Q. No. I'm sorry. I'm looking down at  
 4 the transaction date 8/12.  
 5 A. Oh, okay. I apologize.  
 6 Q. Okay.  
 7 A. Yeah. I see that one, and I also see  
 8 one on the 11th and I see one on the 10th.  
 9 I own, as I think we've discussed and  
 10 as the interrogatory responses reflect, a  
 11 tremendous amount of this, and I had just  
 12 personally invested yet another million dollars  
 13 into the company directly through a warrant  
 14 exercise.  
 15 Q. Right. And three days later on the  
 16 15th, you sold another 125,000 shares of World  
 17 Health, correct?  
 18 A. It may or may not be the shares that  
 19 were received on -- how many shares did I own?  
 20 That's the bigger question.  
 21 Over a million and a half just in the  
 22 month of August; we exercised the warrants. We

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1 purchased debenture from Midsummer at the end of  
 2 July, and converted it at the request of the  
 3 company to eliminate the debt from their balance  
 4 sheet.  
 5 So I'm now outside of the fund, outside  
 6 of investment banking activity remuneration, two  
 7 million personal dollars invested in this  
 8 company.  
 9 Q. And that conversion, that was the  
 10 conversion that we just spoke of with respect to  
 11 the two million dollars wire transfer?  
 12 A. That was the purchase of it, and those  
 13 shares, that, that note was converted into common  
 14 equity.  
 15 Q. And those shares were being sold as  
 16 well, correct?  
 17 A. They were in the account. Some were  
 18 being sold, and as, as we've already discussed,  
 19 at the end of the period, I mean we were still  
 20 sitting with some number of shares.  
 21 I think you pointed it out to me,  
 22 there -- 302,000 at the end of the month, and

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1 another 480,000 on top of that.  
 2 So I was still long almost 800,000  
 3 shares of stock.  
 4 Q. And you would agree with me that the,  
 5 that the sale on August 15th of 2005 was your  
 6 largest sale to that point in the month of World  
 7 Health stock?  
 8 A. I would.  
 9 Q. I -- strike that. You appear to have a  
 10 \$150,000 sale, 150 shares -- 150,000 share sale  
 11 on August 2nd?  
 12 A. Where is that?  
 13 Q. The previous page.  
 14 A. Okay. Then I would not agree with your  
 15 statement.  
 16 MR. WILLIAMS: Okay. Fair enough. Let  
 17 me ask the court reporter to label another  
 18 exhibit as Exhibit No. 47.  
 19 (Exhibit No. 47  
 20 was marked for  
 21 identification.)  
 22 BY MR. WILLIAMS:

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1 Q. And Mr. Reckles, I'll represent to you  
 2 that Exhibit No. 47 is a two-page document Bates  
 3 number SEC-MANNION0016235 and 6236.  
 4 It appears to be a fax cover sheet of  
 5 PEF Advisors from Paul Mannion, and the second  
 6 page appears to be a letter to Amber signed  
 7 Andrew Reckles.  
 8 And my question is do you recognize  
 9 this document?  
 10 A. I do.  
 11 Q. And what is this document?  
 12 A. Just a wire request.  
 13 Q. And the second page of the document, do  
 14 you recognize the signature?  
 15 A. I do.  
 16 Q. And is that your signature?  
 17 A. It is my signature.  
 18 Q. And do you recognize the writing  
 19 beneath the signature?  
 20 A. That is my writing.  
 21 Q. And it indicates that the warrant was  
 22 assigned at \$1.90 a share?

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1 A. Right. That's what it says.  
 2 Q. Okay. And based on your sale of World  
 3 Health stock on that same day, August 12, 2005,  
 4 you sold 25,000 shares at \$3.56 a share, correct?  
 5 A. Okay. Yes.  
 6 Q. So on the day that the warrants were  
 7 assigned to you, the first day, they were in the  
 8 money?  
 9 A. Well, I was selling shares that I  
 10 already had in the company.  
 11 Those weren't the only shares I owned  
 12 in World Health.  
 13 Q. Fair enough.  
 14 A. I could not have received shares on the  
 15 same day that, that I exercised.  
 16 Q. Fair enough. But my question is with  
 17 respect to the warrants that you were exercising,  
 18 those warrants were in the money relative to  
 19 the --  
 20 A. To the market price?  
 21 Q. Market price?  
 22 A. Okay. Fair.

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1 Q. You would agree with that?  
 2 A. I would say that you are accurate.  
 3 Q. Okay. I'm going to show you one more  
 4 document that I'll ask the court reporter to  
 5 label as Exhibit No. 48.  
 6 (Exhibit No. 48  
 7 was marked for  
 8 identification.)  
 9 BY MR. WILLIAMS:  
 10 Q. And Exhibit No. 48 appears to be a  
 11 one-page document Bates number SEC-MANNION 0016547.  
 12 It appears to be an e-mail; subject,  
 13 "Re: WHAI Post Effective SB2" including 1Q-10 Q  
 14 info, July 05 DOC, D-O-C.  
 15 It appears to be from Andy Reckles to  
 16 Rich at whstaff.com.  
 17 And my question to you is do you  
 18 recognize this document?  
 19 A. I don't recall it.  
 20 Q. Okay.  
 21 A. I mean specifically.  
 22 Q. Does it appear to be a communication



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1 between yourself and Mr. McDonald?

2 A. It does, absolutely.

3 Q. Okay. And do you know what your, what,

4 what the reference in this first sentence to "you

5 can't increase Palisades because Palisades is not

6 PEF and Palisades cannot buy it from PEF as

7 Palisades is above threshold by a bit...so it has

8 to be us personally or PEF has to be added to

9 this document," do you know what that's in

10 reference to?

11 A. No, I don't. I mean I can look at the

12 subject line, but I don't know what all of the,

13 the -- just been a long time.

14 I just don't recall.

15 Q. Okay. In particular where it says

16 Palisades is above threshold, do you know what

17 that's a reference to?

18 A. I don't. I mean I could speculate,

19 but --

20 Q. What's your speculation?

21 A. My speculation is that I just didn't,

22 Palisades didn't really want to own anymore

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1 because we weren't above 20 percent at that

2 point, but we did --

3 Q. How do you know that?

4 A. Well, because I know that had we bought

5 more, we would have been over 20 percent.

6 Q. Okay. Fair enough. And it was

7 important not to go over 20 percent?

8 A. Well, we've established that.

9 Q. Okay. Fair enough. Why don't we go

10 off the record briefly and take a brief

11 ten-minute bathroom break?

12 MS. LAMBRAKOPOULOS: Okay.

13 MR. WILLIAMS: And I have, I expect

14 we'll go another 45 minutes or so.

15 MS. LAMBRAKOPOULOS: I may have some

16 questions at the end, too.

17 THE VIDEOGRAPHER: We're going off the

18 record.

19 The time on the video is 4:30 p.m.

20 (A recess was taken.)

21 THE VIDEOGRAPHER: Back on the record.

22 The time on the video is 4:45 p.m.

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1 BY MR. WILLIAMS:

2 Q. Okay. Mr. Reckles, I'm going to show

3 you a document that's been previously marked as

4 Exhibit 28.

5 And looking at it, it appears to be a,

6 an e-mail communication from someone named L.

7 Ellis at rothcp.com, to, appears to be Mr.

8 Mannion's e-mail address, and cc'ed to someone

9 named R. Stephenson at rothcp.com.

10 And my question to you is do you know

11 who R. Stephenson at rothcp.com is?

12 A. Well, I mean based on the e-mail, it

13 looks like it's somebody named Bob Stephenson

14 that worked at Roth Capital.

15 Q. Do you know Bob Stephenson?

16 A. No, not really.

17 Q. Have you, when you say not really, have

18 you ever had a conversation with him, to your

19 knowledge?

20 A. I may have had a correspondence or

21 conversation with him at one point some time in

22 the last ten years.

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1 He's not somebody that I have any real

2 association with.

3 Q. Okay. And directing your attention to

4 the second page of the exhibit, it appears to be

5 a confidential investment proposal for a company

6 called Radyne and ComStream, Incorporated.

7 A. Okay.

8 Q. And my question to you is are you

9 familiar with this transaction?

10 A. Am I familiar with this document, or

11 the overall transaction that was --

12 Q. The overall transaction.

13 A. Yes. Yes.

14 Q. Okay. And is this a transaction that

15 Palisades participated in?

16 A. Yes, I believe so.

17 Q. And let me show you a document that's

18 been marked as Exhibit Number 29.

19 And Exhibit Number 29 appears to be a

20 two-page document that appears to be an e-mail

21 from L. Ellis at rothcp again.

22 It appears to be L. Ellis. The subject

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1 is confidential Radyne communications, and the  
2 document appears to have been sent on  
3 February 12th, 2004, and then forwarded on  
4 February 13th, 2004, from Andy Reckles to  
5 mannion1.

6 And my question to you is did you  
7 receive documents with respect to a Radyne  
8 private offering, a securities purchase  
9 agreement, registration agreement, and escrow  
10 agreement on about February 12th, 2004?

11 A. You know, from what you put in front of  
12 me, I can't say that I did.

13 I -- honestly, I don't, I don't recall.

14 Q. This doesn't appear to be you  
15 forwarding documents to Mr. Mannion, just looking  
16 at it?

17 A. Well, I mean looking at it, some  
18 documents were sent by somebody to a bunch of  
19 other people at Roth Capital, and to some law  
20 firm people, but they were never sent to me.

21 So I'm not -- I mean I'm not on the  
22 distribution list on the message below, so I'm

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1 not sure what I was forwarding to Mr. Mannion  
2 other than -- I mean I'm sorry.

3 I just don't, I don't know how this  
4 all, all ties together because I'm not on the  
5 original, so I don't know how or if I ever got  
6 the documents.

7 Q. Okay. You don't know if this was a  
8 document that might have been blind courtesy  
9 copied to you?

10 A. Well, it would still show the bcc line.  
11 I mean if --

12 Q. If there was a blind courtesy copy, it  
13 would still show the bcc line?

14 A. I would assume so. I mean I --

15 Q. Okay.

16 A. Again, I can't, I can't say that I did  
17 or didn't.

18 From what I have in front of me, I  
19 would be speculating at very best.

20 Q. Okay. Fair enough. Do you recall the  
21 Radyne transaction?

22 A. Vaguely.

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1 Q. What do you recall about it?

2 A. Well, I recall that for the most part,  
3 I wasn't even around.

4 I mean I was in Florida for the better  
5 part of Christmas all the way through until my  
6 birthday, which is February 6th, and didn't come  
7 back to Georgia until about the very end of the  
8 week of the 6th, because Paul was going on  
9 vacation.

10 So over the course of the years of this  
11 investigation and what not, I've been able to  
12 actually verify that document, that I had a condo  
13 in Miami, and that's where we were.

14 So I wasn't, I wasn't involved in the  
15 transaction.

16 I didn't do any of the legwork on the  
17 transaction.

18 I didn't do any of the diligence on the  
19 transaction.

20 I wasn't contacted initially about the  
21 transaction.

22 And I've got very little I can tell you

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1 about the transaction.

2 Q. As far as you know, who did the  
3 diligence on the transaction for Palisades's  
4 side?

5 A. Paul, Paul did -- Mr. Mannion. Sorry.

6 Q. Mr. Mannion did. And --

7 A. Not to interrupt you, but your Exhibit  
8 28, I've never seen this before in my entire  
9 life.

10 Q. Okay. Exhibit No. 28 is the e-mail  
11 attaching the confidential investment proposal?

12 A. Yes. That's, that's the reason why I  
13 asked if you could be more specific with your  
14 question where you asked me about the transaction  
15 or about what the -- the exhibit, because I've  
16 never seen this document, and it was sent to, to  
17 Mr. Mannion, and I wasn't in the State of Georgia  
18 to share it with him, so -- or I never saw it.

19 Q. Okay. And you appear to have forwarded  
20 this e-mail on February 13th, 2004.

21 What, what was the timeframe of your  
22 vacation again?

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1 A. Well, I lived part of the year in  
2 Florida. We, we have a second home there, so I  
3 was there from long, probably just after  
4 Thanksgiving, maybe the first, second week of  
5 December all the way through, and I always stayed  
6 for my birthday, which is February 6th, so I was  
7 always there through my birthday because I wanted  
8 to be in warmer weather for my birthday, just  
9 kind of -- that's who I was.

10 Q. And your birthday was February 6th?

11 A. February 6th, yeah, and I came back,  
12 normally we wouldn't come back until the end of  
13 February, but because Paul was, as I recall,  
14 going on vacation, I came back to make sure that  
15 somebody was in the office at Palisades, so we  
16 came back very shortly after my birthday.

17 Q. When you say very shortly after --

18 A. Day or two, two days, three days, yeah.  
19 I'd have to get a calendar out to really look,  
20 but we would have always driven on a weekend,  
21 so --

22 Q. So some time between February 6th and

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1 February 9th?

2 A. Probably, ballpark.

3 Q. Okay. And the reason you came back  
4 early was so that there would be someone in the  
5 office when Mr. Mannion was out, is that --

6 A. Yeah, correct. I mean theoretically, I  
7 could have done everything I needed to do from  
8 Miami, but it's better to have somebody in the  
9 office.

10 Q. Conceivably as of the day of the  
11 forwarded e-mail, Exhibit No. 29, February 13th,  
12 you were back in the office by then?

13 A. Conceivably.

14 Q. Yeah.

15 (Pause.)

16 BY MR. WILLIAMS:

17 Q. And the Exhibit No. 29 appears to have  
18 in brackets file names of various documents that  
19 are identified above and under numbered headings  
20 as being a securities purchase agreement and  
21 other forms.

22 And it appears that the file names that

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1 were attached to the e-mail are in DOC format.

2 So my question to you is if you  
3 received a securities purchase agreement with a  
4 purchaser signature page as a part of the  
5 document, and the purchaser's identity was in  
6 blank, would you input the name Palisades if  
7 Palisades were participating in the deal?

8 MS. LAMBRACOPOULOS: Objection --  
9 foundation.

10 THE WITNESS: I don't really even know  
11 what you just asked me.

12 I'm sorry. My apologies.

13 BY MR. WILLIAMS:

14 Q. I apologize for the, for the unclear  
15 question.

16 A. Are you referring in specificity to the  
17 theoretical attachments to this e-mail, or --

18 Q. Yeah. Well, my reference is generally  
19 with respect to a securities purchase agreement,  
20 where the identity of the purchaser is not filled  
21 in on the agreement.

22 Have you ever seen a document like

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1 that?

2 A. Where the identity of --

3 Q. Let me hand you a document that's been  
4 marked, previously marked as Exhibit No. 30 in  
5 this case.

6 A. Okay. Maybe that will help. All  
7 right.

8 Q. I'll represent to you that this  
9 document has been previously marked in this case,  
10 and it appears to be a securities stock purchase  
11 agreement dated effective as of February 12,  
12 2004.

13 A. Okay.

14 Q. And directing your attention to the  
15 very last page of the document, there appears to  
16 be a signature page, witness whereof, and there's  
17 a blank spot for the purchaser.

18 Do you see that?

19 A. Yes.

20 Q. And going back earlier in the document,  
21 there appears to be a page 16.

22 It appears to be the signature page for

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1 the securities purchase agreement itself?

2 A. What did you say that page --

3 Q. Page 16.

4 A. Yeah. What did you say the last page  
5 was?

6 Q. The last page appears to be a signature  
7 page for an addendum.

8 A. Okay.

9 Q. And page 16 of the document appears to  
10 be the signature page for the stock purchase  
11 agreement.

12 Do you see that part of the document?

13 A. Okay. Yeah, I do.

14 Q. And if you had received this page 16  
15 with purchaser in brackets like that, would you  
16 have filled in the name Palisades if Palisades  
17 were participating in the offering?

18 MS. LAMBRACOPOULOS: Objection --  
19 foundation, and to the extent that your question  
20 presumes that Exhibit 30 is the document that was  
21 circulated as part of Exhibit 29, I would object  
22 to that.

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1 And I would also note for the record  
2 that Exhibit 29 appears to be a document that was  
3 produced from Defendants' records because I note  
4 our Bates number at the bottom, and it appears to  
5 be from Mr. Mannion's e-mails, whereas Exhibit 30  
6 was not something that Defendants produced, but  
7 appears to have been independently produced to  
8 the SEC by another party.

9 MR. WILLIAMS: Okay. That's fair.

10 MS. LAMBRACOPOULOS: Go ahead and  
11 answer unless you need it read back, the question  
12 read back.

13 THE WITNESS: If I understand your  
14 question correctly, you're asking me that if  
15 somebody sent me a securities purchase or stock  
16 purchase agreement that was blank, would I fill  
17 in the blank?

18 BY MR. WILLIAMS:

19 Q. Yes.

20 A. Well, I guess I would have to answer  
21 that again, based on facts and circumstances, in  
22 most cases, to my recollection, and I've been

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1 involved in a few of these, better than a  
2 hundred, it's rare that you would see documents  
3 that look like that. You would see those in  
4 draft.

5 So either these are the sloppiest  
6 documents in the world, and they were just  
7 crammed together for the purpose of the placement  
8 agent, in this case, Roth, to try to get a deal  
9 closed, or these are drafts.

10 Typically, at least in most of the  
11 deals I've ever seen, the securities purchase  
12 agreement is being entered into by already  
13 defined purchasers, and a company.

14 Q. Okay.

15 A. And thus you know who those parties  
16 are, and the documents reflect that.

17 Now, to answer your question, I  
18 can't -- possibly, yes, if this was the final  
19 set, if I was provided with the final set, if I  
20 was told hey, here's the final set of documents,  
21 this is the signature sets, then -- and we're --  
22 this is how it's getting done, then that's what

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1 we would do.

2 Q. Okay.

3 A. It wouldn't be my, it wouldn't be how I  
4 would do it generally, if I was the agent, but  
5 everybody's got their own way of doing things.

6 Q. Fair enough. I'm going to hand you  
7 another document that's been previously marked  
8 Exhibit No. 32.

9 A. Okay.

10 Q. Exhibit No. 32 appears to be a fax  
11 cover sheet on the letterhead of HPC Capital  
12 Management along with several accompanying  
13 documents.

14 And my question to you, Mr. Reckles, is  
15 with respect to the first page of the document,  
16 do you recognize the handwriting on that page?

17 A. It's my handwriting on the cover sheet.

18 Q. It appears to be faxing sig pages to  
19 Lou Ellis.

20 Do you know who Lou Ellis is?

21 A. Other than what's here in this e-mail,  
22 no, not really.



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1 I'm sorry -- Exhibit 29, the e-mail in  
 2 Exhibit 29, and in Exhibit 28 as well.  
 3 Q. Okay. And the second page of the  
 4 document appears to be signature page to a stock  
 5 purchase agreement signed on behalf of Palisades  
 6 Master Fund.  
 7 Do you see that?  
 8 A. I do.  
 9 Q. Okay. And it appears to have been  
 10 faxed on February 12, 2004, from Beacon Capital  
 11 Management.  
 12 And is that the administrator for  
 13 Palisades?  
 14 A. That is the administrator, yeah.  
 15 Q. Okay. And it appears to have been  
 16 faxed subsequently by HPC Capital on the 14th.  
 17 And my question to you is do you  
 18 recognize the signature on the second page of the  
 19 document?  
 20 A. Not specifically.  
 21 Q. Okay. Let me ask you this. Did you  
 22 ever have occasion to have Palisades's

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1 administrator sign the securities purchase  
 2 agreement on behalf of Palisades?  
 3 A. Well, I mean I don't know that those  
 4 are the administrators that are signing.  
 5 It says here that it's Discovery  
 6 Management, which was a director of the Master  
 7 Fund, so --  
 8 Q. Okay.  
 9 A. And that's what the signature page  
 10 says.  
 11 Q. And who is Discovery Management?  
 12 A. They were director of the Master Fund.  
 13 They were the off-shore director, and they had  
 14 authorized, they had signatory authority.  
 15 Q. And did you ever have Discovery  
 16 Management sign the security purchase agreement  
 17 on behalf of Palisades?  
 18 A. Clearly we, I did on this occasion.  
 19 Q. And why, why would you have the  
 20 off-shore director sign this?  
 21 A. Because I didn't know anything about  
 22 the transaction.

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1 I had never ever seen a document, other  
 2 than the documents that I was told to sign.  
 3 I didn't do any diligence on the  
 4 transaction, and Paul was on vacation. If I  
 5 remember correctly, he was skiing.  
 6 So all I know is that he left, and  
 7 we're doing this deal, get the allocation.  
 8 I've done all the, the, you know, the  
 9 diligence on this, and you know, if we get an  
 10 allocation, just let's take it down.  
 11 Q. Okay. Mr. Mannion told you that he'd  
 12 done all the diligence on the deal?  
 13 A. Yeah. I mean he's the one that  
 14 received all the diligence information in the  
 15 first place.  
 16 I mean his contacts were with the folks  
 17 at Roth.  
 18 I never had any contact with these  
 19 people other than the limited contacts that I had  
 20 in exchanging some signature pages back and forth  
 21 and asking how many, you know, dollars worth of  
 22 this, of the, of the deal we got.

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1 Q. And how much, and when you say Mr.  
 2 Mannion handled the -- well, strike the question.  
 3 How would you obtain the signatures of  
 4 Discovery, how would you obtain the signatures of  
 5 Discovery Management in this context?  
 6 A. I don't recall how it was done. I mean  
 7 this is, this is dated 2006.  
 8 Q. 2004.  
 9 A. Four -- gosh, we're, we're going  
 10 backwards in time.  
 11 You know, I don't recall. I just knew  
 12 that I didn't know anything about the  
 13 transaction, and so I couldn't comfortably sign a  
 14 securities purchase agreement that I didn't even  
 15 have.  
 16 I just had signature pages. That's all  
 17 I had.  
 18 Q. How do you know that that's all you  
 19 had?  
 20 A. Well, the best of my recollection,  
 21 that's what I had, because that's what Discovery  
 22 Management sent back.



<p style="text-align: right;">Page 310</p> <p>1 Q. Okay. And you never had occasion to 2 send signature pages for signature in the absence 3 of a complete agreement? 4 A. Well, if I hadn't at least read the 5 agreement, I wasn't going to put my signature to 6 it. 7 And I hadn't read the agreements. I 8 wasn't in the State of Georgia. I wasn't on any 9 of the e-mail distribution lists. 10 I had no, no inkling as to what the 11 transaction was about or who the company was. 12 It was a transaction that my partner 13 wanted to participate in while I was out of town, 14 and he was going out of town. It just required 15 signatures, and I wasn't comfortable putting my 16 signature on it. 17 The Discovery Management could based on 18 Paul's assessment that it was a deal to do. 19 MR. WILLIAMS: Okay. Let me ask the 20 court reporter to label this document as Exhibit 21 No. 49. 22 (Exhibit No. 49</p>	<p style="text-align: right;">Page 312</p> <p>1 me show you another document that I'll ask the 2 court reporter to label as number, Exhibit No. 3 50. 4 (Exhibit No. 50 5 was marked for 6 identification.) 7 BY MR. WILLIAMS: 8 Q. I'll represent to you that Exhibit No. 9 50 is a one-page document Bates number 10 SEC-MANNION0051114. 11 It appears to be subject, forward sig 12 pages and escrow instrux, date, August 17, 2005. 13 And my question to you is do you 14 recognize this document? 15 A. No, I don't. I don't. It's just an 16 e-mail. 17 Q. Does it appear to be you asking Mr. 18 Elliott to execute something on behalf of 19 Palisades Master Fund? 20 A. Yeah. I mean I don't know what that 21 might be. 22 It could be a coffee order for all I</p>
<p style="text-align: right;">Page 311</p> <p>1 was marked for 2 identification.) 3 BY MR. WILLIAMS: 4 Q. Exhibit No. 49 is a one-page document 5 Bates number SEC-MANNION0049174. 6 Mr. Reckles, I'll represent to you that 7 this is a, an e-mail dated September 19, 2005, 8 forward purchaser signature pages to FLWE 9 securities purchase agreement. 10 And my question to you is do you 11 recognize the ticker symbol FLWE? 12 A. Not off the top of my head. 13 Q. Okay. Does this appear to be an 14 investment that Palisades was entering into? 15 A. It looks like it's a, signature pages 16 to a securities purchase agreement, so that's a 17 fair, fair leap. 18 Q. Okay. And so are you asking Leslie 19 Elliott to have the document signed? 20 A. Well, I may very well be asking Mr. 21 Mannion to do it. 22 MR. WILLIAMS: Okay. Fair enough. Let</p>	<p style="text-align: right;">Page 313</p> <p>1 know. 2 Q. It appears to be in reference to 3 signature pages and escrow instruction? 4 A. Yeah, but to what -- yeah. 5 MS. LAMBRACOPOULOS: Can I -- let me 6 just say I've allowed these questions to go on 7 for a bit, but I mean I'm obviously not 8 instructing the witness not to answer. You 9 should answer. 10 But I would like to interpose an 11 objection to Exhibit 50 and Exhibit 49 to the 12 extent that they're not relevant to this lawsuit. 13 MR. WILLIAMS: Okay. One more document 14 I want to show you, Exhibit No. 51. 15 (Exhibit No. 51 16 was marked for 17 identification.) 18 BY MR. WILLIAMS: 19 Q. Exhibit No. 51 is a three-page document 20 Bates number SEC-MANNION0042744 through 2746. 21 It appears to be a series of e-mails 22 with respect to an investment in an entity called</p>

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1 RSVM.  
 2 And these e-mails appear to have taken  
 3 place on about October 28th, 2005.  
 4 My question to you, Mr. Reckles, is do  
 5 you recognize the company RSVM?  
 6 MS. LAMBRACOPOULOS: And before you  
 7 respond, objection as to relevance.  
 8 Go ahead and answer.  
 9 THE WITNESS: You know, I don't  
 10 remember what, what it stood for, but I actually,  
 11 I remember the, the transaction.  
 12 It was a complicated deal.  
 13 BY MR. WILLIAMS:  
 14 Q. Okay. And it appears to be an e-mail,  
 15 the original e-mail appears to be one from Mr.  
 16 Ze-ev, Z-e-e-v, Eiger, E-i-g-e-r, at mofo.com, to  
 17 yourself and others, with respect to the  
 18 transaction that appears to have an attachment  
 19 called Blank Purchaser Signature Pages DOC,  
 20 D-O-C.  
 21 Do you see that?  
 22 A. I do. Bottom of page 2, right?

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1 Q. Correct.  
 2 A. Okay.  
 3 Q. And on the first page, you appear to  
 4 have forwarded that to Mr. Elliott and Mr. David  
 5 Sims?  
 6 A. Okay.  
 7 Q. And asked them to execute and send on  
 8 behalf of the Palisades Master Fund, and  
 9 indicated an amount and description, correct?  
 10 A. Yes.  
 11 Q. So my question to you is was it your  
 12 practice in connection with securities purchase  
 13 agreement to forward the signature page to Mr.  
 14 Elliott or Mr. Sims for signature?  
 15 MS. LAMBRACOPOULOS: Objection as to  
 16 form.  
 17 THE WITNESS: So in the particular case  
 18 here, I was actually traveling. I was out.  
 19 BY MR. WILLIAMS:  
 20 Q. Okay.  
 21 A. So I didn't have a way to get a signed  
 22 document.

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1 I didn't have a scanner where I was. I  
 2 didn't have a fax machine where I was. I was  
 3 just not in.  
 4 And so in a, in a scenario where one of  
 5 the normal signatories, one of the general  
 6 partners of the fund, was unavailable -- and this  
 7 is a deal that I was most involved in, much like  
 8 the Radyne deal with Paul, right, so this is a  
 9 deal that I, I was involved in.  
 10 That's why -- I don't remember what  
 11 RSVM stands for.  
 12 I know that it was a very complicated  
 13 transaction, and I remember peripherally a lot of  
 14 the involvement with Lehman Brothers. They were  
 15 an investor, and et cetera.  
 16 And I just wasn't available to sign  
 17 off, so --  
 18 Q. Okay.  
 19 A. I blessed off on the signature in that  
 20 case.  
 21 Q. What does that mean?  
 22 A. It means that, that I had read through

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1 the documents.  
 2 I had been involved since the initial  
 3 drafting of the documents.  
 4 I knew this deal. It was a deal I had  
 5 worked on.  
 6 I just wasn't in a place where I could  
 7 get signatures in reading the e-mails, hey, we're  
 8 closing today, I've got to have these things  
 9 signed off.  
 10 And so I instructed the authorized  
 11 signatory at Discovery to go ahead, that I had  
 12 wired funds, and that from my perspective, having  
 13 been the quarterback on this deal, that I was  
 14 good with the documents, and it was okay to go.  
 15 Q. Okay. And who, who blessed off on the  
 16 signature for the Radyne deal?  
 17 A. That's a good question. I don't know.  
 18 I never read the documents.  
 19 I never saw the documents.  
 20 Q. Why don't --  
 21 A. I came in from out of town, literally  
 22 within probably 48 hours of the date that you put

<p style="text-align: right;">Page 318</p> <p>1 an e-mail in front of me, and some documents.</p> <p>2 Q. Okay.</p> <p>3 A. I was relying on my partner, and that's</p> <p>4 all I can say.</p> <p>5 MR. WILLIAMS: Okay. And why don't we</p> <p>6 go off the record briefly so the videographer can</p> <p>7 change the tape?</p> <p>8 THE VIDEOGRAPHER: This concludes Tape</p> <p>9 No. 5 in the video deposition of Andrew Reckles.</p> <p>10 The time on the video is 5:11 p.m.</p> <p>11 We are off the record.</p> <p>12 (A recess was taken.)</p> <p>13 THE VIDEOGRAPHER: This begins Tape No.</p> <p>14 6 in the video deposition of Andrew Reckles. The</p> <p>15 time on the video is 5:12 p.m.</p> <p>16 We are on the record.</p> <p>17 (Exhibit No. 52</p> <p>18 was marked for</p> <p>19 identification.)</p> <p>20 BY MR. WILLIAMS:</p> <p>21 Q. Mr. Reckles, I've had the court</p> <p>22 reporter hand you a document that has been</p>	<p style="text-align: right;">Page 320</p> <p>1 stock?</p> <p>2 A. Oh, I don't know. You want me to read</p> <p>3 it? Because I've never seen it.</p> <p>4 Q. You've never seen this -- that should</p> <p>5 have been my first question.</p> <p>6 Have you ever seen this document?</p> <p>7 A. No.</p> <p>8 Q. Okay.</p> <p>9 A. I've seen the signature pages of some</p> <p>10 document that was some derivation of this, but I</p> <p>11 never saw the document itself.</p> <p>12 Q. Okay. So who, who in PEF would have</p> <p>13 maintained this document?</p> <p>14 A. Well, I mean I would have to say Mr.</p> <p>15 Mannion would have a copy of this document.</p> <p>16 The production that you received from</p> <p>17 PEF, you know, I don't know, but my guess is it</p> <p>18 probably came from him because I didn't have it.</p> <p>19 I didn't see it.</p> <p>20 Q. Okay. And directing your attention to</p> <p>21 page 10 of the document in particular --</p> <p>22 A. Page 10.</p>
<p style="text-align: right;">Page 319</p> <p>1 labeled as Exhibit number?</p> <p>2 A. Fifty-two.</p> <p>3 Q. Fifty-two -- thank you.</p> <p>4 A. Sure.</p> <p>5 Q. It is a document entitled, "Stock</p> <p>6 Purchase Agreement," Bates number</p> <p>7 SEC-MANNION0024525 through 0024570.</p> <p>8 And it appears to be two copies of a</p> <p>9 securities, of a stock purchase agreement</p> <p>10 effective as of February 12, 2004.</p> <p>11 And I'll represent to you that these</p> <p>12 are documents that were produced to the SEC by</p> <p>13 Palisades or by PEF.</p> <p>14 And with respect to the first version</p> <p>15 of the document, there appear to be signature</p> <p>16 pages beginning on page 15 of the sellers, and</p> <p>17 then there appears to be a page 16 that's left in</p> <p>18 blank for purchaser.</p> <p>19 And my question is with respect to this</p> <p>20 document, is there a, a representation on behalf</p> <p>21 of the purchaser that the purchasers held no</p> <p>22 short position in any shares of the company</p>	<p style="text-align: right;">Page 321</p> <p>1 Q. Under the heading --</p> <p>2 A. Are we talking about paginated page 10,</p> <p>3 or page 10 ten.</p> <p>4 Q. Paginated page 10 --</p> <p>5 A. Okay.</p> <p>6 Q. -- of the first document that appears</p> <p>7 on Bates number SEC-MANNION0024534.</p> <p>8 A. Okay. I've gotcha.</p> <p>9 Q. Under Article Two, representations of</p> <p>10 purchaser.</p> <p>11 A. Okay.</p> <p>12 Q. And under subheading (j), is there a</p> <p>13 representation that purchaser has no short</p> <p>14 positions?</p> <p>15 A. It says --</p> <p>16 (The witness reviewed the document.)</p> <p>17 MS. LAMBRAKOPOULOS: Objection. The</p> <p>18 document speaks for itself.</p> <p>19 You can answer if you have knowledge.</p> <p>20 THE WITNESS: Well, I can just read</p> <p>21 what it says.</p> <p>22 It says that the purchaser does not</p>

<p style="text-align: right;">Page 322</p> <p>1 hold a short position directly or indirectly.  2 BY MR. WILLIAMS:  3 Q. And were you aware in about this time,  4 which appears to have been in February 2004, that  5 certain securities purchase agreements had a  6 so-called no short provision?  7 MS. LAMBRACOPOULOS: Objection as to  8 foundation and form.  9 THE WITNESS: Again, I --  10 BY MR. WILLIAMS:  11 Q. You can answer if you understand the  12 question. It may have been a bad question.  13 A. I think I do. Let me, let me just see  14 if I can, can clarify it.  15 You're asking me if, if in general,  16 industry-wide, it was common practice for there  17 to be no shorting language in a stock purchase  18 agreement?  19 Q. Yes. Yes.  20 A. I can't answer on behalf of an  21 industry.  22 I can only say that in my experience,</p>	<p style="text-align: right;">Page 324</p> <p>1 previously labeled as Exhibit No. 33.  2 A. Okay. Thanks.  3 Q. Exhibit No. 33 appears to be a  4 February 2004 statement for Palisades Master Fund  5 at Global Securities.  6 My first question to you is did  7 Palisades have an account at Global Securities in  8 about February 2004?  9 A. I have a statement from one, so I  10 assume so.  11 Q. As far as you know?  12 A. As far as I know, we did.  13 Q. And directing your attention in  14 particular to the second page -- excuse me -- the  15 third page of the document.  16 A. Okay.  17 Q. It appears with respect to a settlement  18 date of 2/10/2004, a short sale of Radyne  19 ComStream --  20 A. Okay.  21 Q. -- of 10,000 shares. Do you see that?  22 A. I do.</p>
<p style="text-align: right;">Page 323</p> <p>1 they existed from time to time.  2 I would not say that they were always  3 the norm.  4 Q. Okay. If there was a no short position  5 clause in a securities purchase agreement, would  6 it be appropriate to establish a short position  7 prior to the closing of the transaction?  8 MS. LAMBRACOPOULOS: Objection --  9 foundation, and speculation.  10 THE WITNESS: You know, I would think  11 probably not.  12 What was I just looking at here?  13 MS. LAMBRACOPOULOS: Let's concentrate  14 on the question.  15 THE WITNESS: Sorry. I would guess  16 probably not.  17 BY MR. WILLIAMS:  18 Q. Do you know if Palisades had a short  19 position in Radyne stock at about, in about  20 February 12th, 2004?  21 A. You know, I don't recall.  22 Q. Let me hand you a document that's been</p>	<p style="text-align: right;">Page 325</p> <p>1 Q. And does that indicate that the fund  2 had a short position in Radyne prior to  3 February 12, 2004?  4 A. It would.  5 Q. And let me hand you another document  6 that's previously been labeled as Exhibit No. 27.  7 A. Let me speak for the record that the  8 funds covered its short position very shortly  9 thereafter, so --  10 Q. Okay. Oh, I'm sorry. I called it  11 Exhibit No. 27. It's Exhibit No. 34.  12 A. Okay.  13 Q. And this appears to be a brokerage  14 account statement from Westminster Securities in  15 the name of Palisades Master Fund, LP, for the  16 period February 2004.  17 And did Palisades have a brokerage  18 account at Westminster --  19 A. Yes.  20 Q. -- in about February 2004?  21 A. Yes, sir.  22 Q. Okay. And I'm going to direct your</p>

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1 attention to the second page of the document.  
 2 There appears to have been a short sale  
 3 on the transaction date of February 6, 2004, for  
 4 Radyne ComStream, 49,000 shares.

5 Do you see that?

6 A. I -- yes, I do.

7 Q. Okay. And does that indicate to you  
 8 that Radyne, that Palisades had a short position  
 9 in Radyne as of February 12th of 2004?

10 A. It, it says sold short, so --

11 Q. With respect to the short sale  
 12 transactions that appear to be reflected in  
 13 Exhibits 33 and 34, who would have placed those  
 14 trades?

15 A. I don't, I don't know. I know one of  
 16 them was placed on my birthday, so it was  
 17 probably highly unlikely that it was me.

18 Q. Okay. So you don't think you --

19 A. I generally made -- sorry to interrupt  
 20 you.

21 Go ahead.

22 Q. The one on February 6th, is that your

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1 birthday?

2 A. Yeah.

3 Q. Okay. I'm sorry. That one was before  
 4 you came back from vacation, is that right?

5 A. Yeah. That's correct.

6 Q. Okay.

7 A. I came -- I mean we talked earlier  
 8 joking around that I don't, I don't get any  
 9 Father's Day around the house, but I get a  
 10 birthday, so that was usually -- I don't usually  
 11 work on my birthday. It's kind of a, kind of a  
 12 deal, so --

13 Q. So your surmise is that it would have  
 14 been Mr. Mannion, or it could have been someone  
 15 else?

16 A. I don't know if Mr. Batista worked for  
 17 us at that point, so theoretically, it could have  
 18 been either.

19 Q. Okay.

20 A. As I testified earlier, I don't  
 21 remember when he joined the firm.

22 MR. WILLIAMS: And one more document

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1 I'll ask the court reporter to label as Exhibit  
 2 No. 53.

3 (Exhibit No. 53  
 4 was marked for  
 5 identification.)

6 THE WITNESS: Okay.

7 BY MR. WILLIAMS:

8 Q. And I'll represent to you that the  
 9 Exhibit No. 53 is poorly Bates labeled, but it  
 10 appears to be labeled SEC-MANNION0000574.

11 A. Okay.

12 Q. And it appears to be an e-mail from you  
 13 to, to various individuals on February 23rd,  
 14 2004; subject, idul.

15 My question is do you recognize this  
 16 document?

17 A. No, not really.

18 Q. Okay. It appears to be -- do you  
 19 recognize the e-mail addresses in the to heading?

20 A. Do I recognize the -- let's see. Yeah,  
 21 some of them. Yes.

22 Q. And who are these individuals?

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1 A. Those would be folks that would  
 2 typically invest in private placements, either  
 3 that we were investing in or that we were  
 4 representing, companies that we were  
 5 representing.

6 Q. I see. And do you see in the second  
 7 line of the first paragraph, a reference "...not  
 8 to mention there is a NO SHORT positions held  
 9 going into closing clause"?

10 Do you see that part of the document?

11 A. I do.

12 Q. What is that in reference to?

13 A. Again, I would have to purely  
 14 speculate. I would have to speculate unless you  
 15 could --

16 Q. You don't remember?

17 A. I don't.

18 Q. Okay.

19 A. I mean I'm not trying to be difficult.

20 It would appear that I'm referencing some,  
 21 something in the documentation for the  
 22 transaction, but without the documents, it's all



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1 just speculation.

2 Q. So let me ask you this question. If,  
3 if deal documentation contained a representation  
4 that the purchasers had no short positions, would  
5 that be a significant fact in your mind in terms  
6 of whether or not you could sell short the stock?

7 MS. LAMBRAKOPOULOS: Objection as to  
8 foundation and relevance, and to extent that this  
9 has got, that your question presumes that that's  
10 what Exhibit 53 reflects, which is not in  
11 evidence.

12 MR. WILLIAMS: Fair.

13 THE WITNESS: I think I already  
14 answered that, if I'm not mistaken.

15 BY MR. WILLIAMS:

16 Q. Okay.

17 A. I think you asked me that, and she  
18 objected to that earlier, and --

19 Q. What was your answer?

20 A. Well, if you're asking me again if, in  
21 general terms, if a document contains a no  
22 shorting provision, and you're shorting stock,

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1 what is your opinion of that? I think that was  
2 how you phrased it?

3 Q. Yeah. Would it be appropriate?

4 A. Would it be appropriate? I think my  
5 answer was no.

6 MS. LAMBRAKOPOULOS: Are you seeking  
7 his opinion? Because if that's what you're  
8 doing --

9 THE WITNESS: That's what's part of the  
10 confusion.

11 MS. LAMBRAKOPOULOS: -- I'm going to  
12 object.

13 He's a fact witness here. He's not an,  
14 an expert here for the purposes of rendering an  
15 expert opinion.

16 MR. WILLIAMS: I'm not asking for an  
17 expert opinion.

18 I'm asking for a percipient opinion  
19 based on the terms of Exhibit No. 30.

20 MS. LAMBRAKOPOULOS: Let's get  
21 Exhibit 30 out, and let's take, let's take this  
22 one at time.

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1 BY MR. WILLIAMS:

2 Q. Actually, instead of going to No. 30,  
3 why don't we go to number, it's No. 52.

4 MS. LAMBRAKOPOULOS: This is 52.

5 THE WITNESS: Okay.

6 BY MR. WILLIAMS:

7 Q. And let's go to page 10 of Exhibit  
8 No. 52.

9 A. So Mr. Williams, I guess part of my  
10 confusion --

11 MS. LAMBRAKOPOULOS: Well, let's let  
12 him ask a question.

13 THE WITNESS: He asked it twice.

14 MS. LAMBRAKOPOULOS: I'd like to hear  
15 it again.

16 BY MR. WILLIAMS:

17 Q. And my question is based on the  
18 representation that appears on paragraph (j) of  
19 page 10, would that representation be an  
20 impediment to, or should that representation be  
21 an impediment to Palisades establishing a short  
22 position in Radyne stock prior to the closing of

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1 the transaction?

2 MS. LAMBRAKOPOULOS: And then I'm going  
3 to object to the extent your question presumes  
4 that subsection (j) of Exhibit 52 or indeed  
5 Exhibit 52 is the stock purchase agreement that  
6 Palisades indeed entered into, which is not in  
7 evidence.

8 MR. WILLIAMS: It appears to be a stock  
9 purchase agreement that's executed by Radyne that  
10 was produced to the SEC by Palisades.

11 MS. LAMBRAKOPOULOS: But I will note  
12 for the record that Exhibit 52 does not contain  
13 any indication that this stock purchase agreement  
14 was executed on behalf of Palisades.

15 If you believe that to be the case,  
16 please point me to the appropriate page, because  
17 I do not see that.

18 MR. WILLIAMS: Fair enough. I think I  
19 understand your objection.

20 MS. LAMBRAKOPOULOS: Go ahead and  
21 answer to the extent you have factual knowledge.

22 And I'm going to instruct you not to

1 answer with respect to providing any kind of  
2 opinion testimony, which is not the purpose of  
3 your testimony here today.

4 THE WITNESS: Okay. Since I believe  
5 I've already testified that I've never seen the  
6 document that you put in front of me --

7 BY MR. WILLIAMS:

8 Q. Um-hm.

9 A. So any answer I would give would be an  
10 opinion.

11 Q. Well --

12 A. It could only be an opinion.

13 Q. Would you agree with me that exhibit  
14 number -- the fax -- would you agree with me that  
15 exhibit number -- where is it -- 32, is a  
16 document that --

17 A. Show me what 32 is real quick. Cover  
18 page, Lou Ellis, okay. Got it. Okay.

19 Q. Would you agree with me that Exhibit 32  
20 is a document that you appear to have transmitted  
21 to the placement agent for Radyne?

22 A. I can tell you that, from what I have

1 in front of me, that these are nothing more than  
2 signature pages.

3 That's it. That's it.

4 Q. The signature page that appears on page  
5 2 is presumably the signature page to the stock  
6 purchase agreement, correct?

7 A. Well, I mean I don't know what document  
8 that that's from.

9 I don't. I don't, I don't -- I've  
10 never seen this document before. I've seen --

11 MS. LAMBRAKOPOULOS: Meaning exhibit?

12 THE WITNESS: I'm sorry -- Exhibit 52.  
13 I've seen signature pages.

14 That's all I've ever seen.

15 BY MR. WILLIAMS:

16 Q. Okay, but you, when, when you saw the  
17 signature page, you understood that the signature  
18 page was relevant to a particular agreement,  
19 correct?

20 A. Absolutely. Absolutely. I'm not  
21 disputing that.

22 What I'm disputing and what I think

1 you're trying to pin me down on is that I can't  
2 tie this to this, because I've never seen this,  
3 and I've only ever seen the signature pages.

4 My entire role in this transaction from  
5 start to finish, to the best of my recollection,  
6 and where I was geographically, was to transmit  
7 some signature pages back and forth between an  
8 authorized signatory of the fund, and the  
9 placement agent on the transaction, and  
10 confirm -- bear with me -- and confirm with the  
11 placement agent our allocation in the deal.

12 That's, that's the best of my  
13 recollection of my entire role in anything to do  
14 with the Radyne ComStream.

15 Q. And in obtaining the signature of an  
16 authorized signatory of the fund in connection  
17 with this transaction, what is it that you  
18 believe the fund was agreeing to?

19 A. I was relying on my partner's diligence  
20 in the fact that he said that if, and I believe  
21 we looked at a prior e-mail on this subject, and  
22 I've got to dig back through this jumble, but

1 that if an allocation came in, get the  
2 allocation, because I've done the work on this,  
3 ostensibly something of that nature.

4 Q. But the signature page to the  
5 securities stock purchase agreement is an  
6 attestation to an agreement, correct?

7 A. Yes. Yes.

8 Q. And so --

9 A. Am I not being clear?

10 MS. LAMBRAKOPOULOS: No. You're being  
11 clear.

12 BY MR. WILLIAMS:

13 Q. I'm not saying you're not being clear.

14 MS. LAMBRAKOPOULOS: You're being  
15 clear.

16 BY MR. WILLIAMS:

17 Q. I'm just trying to get specific answers  
18 to, to these, to this question.

19 By obtaining a signature page attesting  
20 to a particular agreement, what did you believe,  
21 if anything, if you had a belief, what did you  
22 believe that, that Palisades was attesting to?

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1 A. I didn't. I'm not. I merely acted as  
2 a conduit between a fax machine and some  
3 signature pages on a transaction that I think  
4 I've repeatedly testified that my partner, Mr.  
5 Mannion, had run ground soup to nuts.

6 Q. Okay.

7 A. So I relied on the fact that I was out  
8 of town during his diligence period and his  
9 interplay with the placement agent.

10 My assumption is he had read the  
11 documents.

12 That could be correct. That might not  
13 be correct.

14 I know that I've never seen the  
15 documents until they were put in front of me I  
16 think at our last interview in May of '09.

17 Q. But you never read the, the documents?

18 A. Absolutely not. Never saw the  
19 documents.

20 I saw the signature pages.

21 Q. And where did the signature page come  
22 from?

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1 A. They were sent to me by counsel, just  
2 the signature pages.

3 Q. The signature page was sent to you by  
4 who?

5 A. By the counsel for the placement agent.

6 Q. Okay. And was that by e-mail, or some  
7 other --

8 A. Probably by e-mail, and probably with  
9 the copious amount of discovery we sent to you.

10 Q. And you indicated that you produced to  
11 us an e-mail --

12 A. Every --

13 Q. -- every signature page that was  
14 produced to you?

15 A. Every e-mail that I've ever had during  
16 my term, unless it was deleted during the  
17 ordinary course of business, was, was given to  
18 you guys.

19 Q. Okay. And so in connection with --

20 A. It wouldn't be uncommon -- I'm sorry to  
21 interrupt.

22 It wouldn't be uncommon, Mr. Williams,

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1 to, to request signature pages directly from  
2 counsel. It wouldn't --

3 Q. Is that what happened in this case?

4 A. That's, that's, that's my recollection.  
5 I never saw the documents. I never saw the  
6 documents.

7 Q. Okay. And so the e-mail that you  
8 appear to have forwarded to Mr. Mannion that we  
9 looked at earlier today, you, you, you didn't  
10 review the documents that were attached to it?

11 A. Absolutely not. Absolutely not.

12 Q. Okay.

13 A. I knew nothing about the deal, so why  
14 would I read through documents on a deal I've  
15 never seen a term sheet on, never seen a company  
16 presentation on?

17 It would be looking at, it would be  
18 like looking at the Chinese phone book to me.

19 It would be, it would be completely  
20 irrelevant and not understandable.

21 I don't know if the terms are right,  
22 wrong, indifferent.

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1 I've never spoken to the placement  
2 agent. I've never seen a company presentation.  
3 I --

4 Q. If the particular deal documents that  
5 you didn't look at --

6 A. Right.

7 Q. -- had a no shorting provision in it,  
8 would it be appropriate for Palisades to  
9 establish a short position in the, in the  
10 transaction?

11 MS. LAMBRACOPOULOS: Again,  
12 objection -- lack of foundation.

13 And I'm going to at this point instruct  
14 the witness not to answer.

15 We've been through this, with all due  
16 respect, for two years.

17 This transaction is seven years old,  
18 and for the last two years since May of '09,  
19 we've been asking to see the entirety of the  
20 document that Palisades is purported to have  
21 signed.

22 We have not seen it at all in the two

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1 years, and it's not here today.  
 2 That is my objection.  
 3 MR. WILLIAMS: You're directing the  
 4 witness not to answer?  
 5 MS. LAMBRACOPOULOS: I'm directing him  
 6 not to answer.  
 7 MR. WILLIAMS: On a relevance  
 8 objection?  
 9 MS. LAMBRACOPOULOS: On a relevance  
 10 objection, and on a lack of foundation objection,  
 11 and on an asked and answered objection.  
 12 MR. WILLIAMS: Well, I agree it's been  
 13 asked.  
 14 MS. LAMBRACOPOULOS: And it's been  
 15 asked, so I think at this point, I stand by my  
 16 instruction.  
 17 MR. WILLIAMS: Fair enough. I  
 18 completely understand.  
 19 BY MR. WILLIAMS:  
 20 Q. And in reference to --  
 21 MS. LAMBRACOPOULOS: Let me also note  
 22 for the record because I want it to be clear in

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1 this deposition record, and I noted in Mr.  
 2 Mannion's deposition, Exhibit 32, at least the  
 3 signature pages, and the first pages of the stock  
 4 purchase agreement, and the registration rights  
 5 agreement that are contained in Exhibit 32 are  
 6 not the same document that we see in Exhibit 52,  
 7 or Exhibit 30.  
 8 MR. WILLIAMS: I'm sorry, counsel.  
 9 Would you state your objection again?  
 10 MS. LAMBRACOPOULOS: Absolutely. I  
 11 want to make it clear for the record that with  
 12 respect to Exhibit 32, and the signature pages  
 13 and the first page of a stock purchase agreement  
 14 and a registration rights agreement that are  
 15 contained in Exhibit 32, these documents are not  
 16 the same documents that are contained within the  
 17 entirety of either Exhibit 52 or Exhibit 30.  
 18 BY MR. WILLIAMS:  
 19 Q. And my question to you, Mr. Reckles,  
 20 with respect to Exhibit 53 --  
 21 A. Fifty-three.  
 22 Q. The one-page e-mail, subject, iduf?

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1 A. Okay. Gotcha.  
 2 Q. On the very last sentence where it  
 3 says, "I am not accusing anyone, but suggesting  
 4 that perhaps if someone is selling short..they  
 5 stop."  
 6 And my question to you is why would you  
 7 be telling potential investors to stop short  
 8 selling?  
 9 MS. LAMBRACOPOULOS: Objection --  
 10 relevance.  
 11 Go ahead and answer to the extent you  
 12 have factual knowledge.  
 13 THE WITNESS: I don't remember the  
 14 transaction. I don't remember the e-mail.  
 15 So you're asking me to speculate on a  
 16 state of mind that I might have had seven years  
 17 ago next month.  
 18 Mr. Williams, I can't help you. I  
 19 can't.  
 20 I don't know the answer.  
 21 BY MR. WILLIAMS:  
 22 Q. You can't answer that question?

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1 A. I don't know the answer.  
 2 Q. Okay. Fair enough. And with that,  
 3 I'll conclude my examination --  
 4 A. Okay.  
 5 Q. -- Mr. Reckles. Those are all the  
 6 questions I have for you today.  
 7 A. Thank you.  
 8 Q. I'll allow your counsel to ask any  
 9 follow-up questions that counsel may have.  
 10 MS. LAMBRACOPOULOS: Sure. Give me a  
 11 moment, please, to -- can we go off the record  
 12 for two minutes?  
 13 THE VIDEOGRAPHER: We're going off the  
 14 record.  
 15 The time on the video is 5:36 p.m.  
 16 (A recess was taken.)  
 17 THE VIDEOGRAPHER: We're back on the  
 18 record.  
 19 The time on the video is 5:39 p.m.  
 20 EXAMINATION BY COUNSEL FOR DEFENDANTS  
 21 BY MS. LAMBRACOPOULOS:  
 22 Q. Yes, Mr. Reckles, I would like to ask



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1 you a few questions following your deposition  
2 here today, or as part of your deposition here  
3 today. Earlier in your deposition, there  
4 were some questions regarding the management fees  
5 that PEF Advisors earned in connection with their  
6 management of the Palisades fund.

7 Do you recall those questions?

8 A. I mean I don't remember the specific  
9 questions, but I remember that there was a  
10 question or discussion about fees.

11 Q. Do you recall as to the World Health  
12 side pocketed assets how much in the way of  
13 management fees the advisor earned that were  
14 attributable to those assets in August,  
15 September, and October of 2005?

16 A. I mean I could do the math for you. It  
17 wasn't a tremendous sum in the overall scheme --

18 Q. Okay.

19 A. -- of, of things.

20 Q. I'd like to show you what was  
21 previously marked as Exhibit 22.

22 A. Can I look in here at the exhibits?

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1 Q. Sure.

2 A. Okay. Thanks. All right.

3 Q. You earlier identified Exhibit 22 as  
4 the document associated with the funds and their  
5 position in August of 2005.

6 A. Okay.

7 Q. And I'm going to ask you to take a look  
8 at page 1603 of the exhibit, which describes the  
9 side pocket investments --

10 A. Okay.

11 Q. -- for August of 2005.

12 A. All rightee.

13 Q. Based on this information, are you in a  
14 position to tell us today what the approximate  
15 amount of management fees PEF Advisors earned for  
16 August of 2005 that are attributable to the World  
17 Health --

18 A. Yeah, I, I can do that. That's just --  
19 I need to calculate it, though, I mean --

20 Q. Please go ahead.

21 (Pause.)

22 MR. WILLIAMS: Can you describe for the

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1 record what you, what your calculations are --

2 THE WITNESS: Well, I'm actually  
3 playing, I'm playing words with friends right now  
4 is what I'm doing.

5 (Laughter.)

6 THE WITNESS: I'm going to take the,  
7 I'm going to take the value of the, of the side  
8 pocket on this 1603 at \$15,357,421.67 -- and my  
9 calculator on my phone won't go that high, so  
10 we're going to call it at 60 cents.

11 And I'm going to multiply it by the  
12 management fee, which was an annualized fee of  
13 one and a half percent, so times .015.

14 And I'm going to divide that number by  
15 12 months because she's asking for a monthly  
16 snapshot, so it's a, a fee of \$19,000.

17 BY MS. LAMBRAKOPOULOS:

18 Q. And would that be for August of 2005?

19 A. That would be for August of 2005.

20 Q. Okay. And the exhibit that you were  
21 looking at, Exhibit 22, reflects a number of  
22 positions in the side pocket relating to World

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1 Health, and in particular, the position that  
2 includes the restricted common stock --

3 A. Um-um.

4 Q. -- in World Health?

5 A. Yes.

6 Q. And I'm going to ask you what part of  
7 the management fee for the month was attributed  
8 to the restricted common stock valuation.

9 A. Well, let's see here. I think the best  
10 way for me to do that, if I could borrow your pen  
11 and a piece of paper?

12 Q. Sure.

13 A. So we know that a hundred percent of it  
14 equals 19196.77, so if we take 1,984,921.67, and  
15 we divide that by a total of, by the total value  
16 of the side pocket in that month, which is  
17 15,357,421 spot 6, that percentage to the common  
18 stock restricted position represented 12 percent  
19 of the total assets of the side pocket.

20 So if I multiply -- 12.3 percent, to be  
21 exact, so if I take 12.33 times what we deemed  
22 the fee to be, it represents \$2,368.00.



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1 Q. Okay. So I'm going to ask you if you  
2 had valued, you meaning PEF Advisors, had valued  
3 the restricted common stock at zero for the month  
4 of August of 2005, how would that have impacted  
5 the management fee that was earned by PEF  
6 Advisors for August of 2005?

7 A. Well, if I did all this right on my  
8 i-phone, it would have impacted us by \$2,368.00.

9 Q. Okay. Now --

10 A. I want to quickly verify that one other  
11 way, just to be sure -- 15,357,421 point 6 minus  
12 1894921 point 6, times .015 -- I'm sorry --  
13 divided by -- I won't talk out loud. I'll give  
14 you --

15 MR. WILLIAMS: Well, continue talking  
16 out loud --

17 THE WITNESS: Okay.

18 MR. WILLIAMS: -- so we'll know what  
19 your calculations are.

20 THE WITNESS: All right. What I've  
21 done now is just, I'm just verifying my own  
22 calculations here.

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1 I've taken the total asset pile of  
2 15,357,421, I've subtracted, based on her  
3 question if it had no value associated with the  
4 common, so I've taken our ascribed value away,  
5 and I've multiplied that by one and a half  
6 percent annualized.

7 I've divided that by 12, and I get to  
8 16,828.12, so I may have done this right. Yep --  
9 2,368.64 -- spot on.

10 BY MS. LAMBRAKOPOULOS:

11 Q. Okay. Did you believe as of the time  
12 that the NAV for August 2005 was calculated that  
13 the value of the restricted common stock in World  
14 Health should be valued at zero?

15 A. No.

16 Q. Okay. Did there come a time when you  
17 formed that belief with respect to future NAVs of  
18 the fund?

19 A. Absolutely.

20 Q. And when would that have been?

21 A. If I remember correctly, we, that Paul  
22 Mannion and myself, wrote all of the common, both

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1 restricted and unrestricted, down to zero in the  
2 subsequent NAV period except for the September  
3 and going forward NAV periods.

4 So this is one month.

5 Q. Okay. Going back to Exhibit 22, I note  
6 that there is a valuation on page 1603 regarding  
7 or relating to a convertible debenture in World  
8 Health that's contained in the side pocket, is  
9 that correct?

10 A. Yes.

11 Q. And is it fair to say that the  
12 valuation for August of 2005 for the convertible  
13 debenture was made at cost, the cost to the fund?

14 MR. WILLIAMS: Object to the form.

15 THE WITNESS: I, I would imagine so,  
16 yes.

17 BY MS. LAMBRAKOPOULOS:

18 Q. By imagine, what do you mean?

19 A. Well, without, without some documents  
20 to refresh, I don't know for certain.

21 Q. Can you, can you review Exhibit 22 and,  
22 and respond to the question after reviewing

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1 Exhibit 22, and in particular, 1603?

2 A. Well, it's being carried at -- yes,  
3 it's carried at cost, yes.

4 Q. Okay. Now there's been questioning  
5 earlier today with respect to a spreadsheet that  
6 appears to reflect 35 percent as, in a column  
7 under estimated cost recovery for the convertible  
8 debenture? I believe Exhibit 20?

9 MR. WILLIAMS: Yes.

10 THE WITNESS: Can I find it?

11 BY MS. LAMBRAKOPOULOS:

12 Q. Yes. I'll find that for you. I've got  
13 it right here.

14 A. Okay. I'll take those. All right.

15 Q. And can you tell us had the convertible  
16 debenture been valued at 35 percent of its cost  
17 for the NAV for August of 2005, what would have  
18 been the impact of that valuation on the  
19 advisor's management fees for the month of August  
20 of 2005?

21 A. Well, what's interesting about -- is  
22 this 20 you said?

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1 Q. Right.

2 A. There's a couple things that are  
3 interesting here to me.

4 And I guess it goes to reinforce that  
5 this was nothing more than an internal work  
6 product.

7 If you look at what cost was deemed to  
8 be next to World Health debenture, I mean there,  
9 there was only one.

10 Cost was \$9,574,418. That's what  
11 costs were paid for.

12 But when you get to the NAV, we'd  
13 already written it down in the same month by \$2  
14 million below cost.

15 Go, go to your exhibit 1603.

16 Q. Is it possible that the cost that's  
17 noted on Exhibit 20 is the face amount of the  
18 bond?

19 A. That's very possible. My only point in  
20 this exercise is that this is an internal work  
21 product.

22 Q. Meaning Exhibit 20?

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1 A. Meaning Exhibit 20; and so what  
2 transpires here with Exhibit 20, whether it's 35  
3 percent or a hundred percent or whether it's 9.5,  
4 it's, it's not -- I mean it's like the sausage  
5 making we talked about earlier when we were  
6 talking politics.

7 There is a lot that we were doing back  
8 and forth with the administrators.

9 This is, this is the face value of the  
10 bond. This is the cost for the bond.

11 We elected to carry, if you look at  
12 1603, the bond at cost, as opposed to face value.

13 Cost is not face value. Face value is  
14 what you get paid back when a bond comes due.

15 We have every right, according to  
16 policy, to carry it at face value, not at cost.

17 We carried it at cost.

18 Q. And going back to my question, had you  
19 not carried it at cost, but carried it at  
20 35 percent of its cost --

21 A. Okay.

22 Q. -- what would have been the impact of

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1 that decision on the management fees for the  
2 month of August 2005?

3 A. So what I'm going to do is I'm going to  
4 make the assumption that example -- I'm sorry --  
5 exhibit 1603, that the self-liquidating debenture  
6 cost is this \$7,352,500 numbers, because in  
7 Exhibit 20, cost is also used at nine million,  
8 574, so I'm being given two numbers with both  
9 definitions, okay.

10 Assuming that 7,352,500 was cost, and  
11 not a mark-down from cost, then that would mean  
12 that 7,352,500 times .015 divided by 12, so the  
13 management fees associated to that bond at full  
14 cost for that month represent \$9,190.00 of the  
15 total management fees for the side pocket, if we  
16 marked it down to 35 percent?

17 Q. Right.

18 A. And we want to mark it down from  
19 35 percent of what's on the NAV sheet, or what's  
20 on the internal work documents?

21 Q. What's on the NAV, what's NAV --  
22 well --

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1 A. Because -- okay.

2 Q. Let's mark it down based on the NAV  
3 sheet.

4 A. Sure.

5 Q. That's on the exhibit, Exhibit 20.

6 A. 7,352,500 times .35 is a result of  
7 2,573,375 carrying value.

8 Multiplying that by .015 and dividing  
9 that by 12, it represents \$3,200; 3216.71, what's  
10 the -- ballpark here is roughly six grand, \$5,800  
11 worth of addition -- of difference.

12 Q. And with respect only to the  
13 convertible debenture, the number that you just  
14 quoted, \$3,215, would that have been the amount  
15 of the differential in the management fees for  
16 the month of September and October 2005?

17 A. Yeah. My recollection is we carried  
18 the debentures at cost until November I believe.  
19 I believe, but I'd have to be refreshed.

20 Assuming that that was the case and  
21 that would be correct, it would be a difference  
22 of four -- what is that? Well, I'll just do the

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1 math -- plus 9190.62, it's a difference of  
2 \$5,973.90.

3 Q. Okay.

4 A. Per, per month, per month.

5 Q. And what happens in November 2005 that  
6 caused you to change the way the side pocket was  
7 valued?

8 A. The flow of information coming from the  
9 investment banker, who was charged with the  
10 disposition of the World Health, the sale of  
11 World Health, was not favorable, that they were  
12 not finding a successful buyer for the company,  
13 outside of bankruptcy, and that the company was  
14 likely to be filing a pre-packaged bankruptcy,  
15 and potentially, that the company would be sold  
16 through a bankruptcy event, which is in fact what  
17 happened.

18 Q. And earlier during this deposition, you  
19 testified about a series of negotiations that  
20 were ongoing between Palisades and  
21 representatives of World Health.

22 Was there any combination or any

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1 conclusion to those negotiations in either  
2 October or November of 2005?

3 A. In October or November -- well, we were  
4 still I believe --

5 MR. WILLIAMS: I'm going to object to  
6 the form.

7 You can answer.

8 THE WITNESS: Okay. I believe we were  
9 still talking and working with counsel for the  
10 company for World Health, that being Ms. Borders.

11 BY MS. LAMBRAKOPOULOS:

12 Q. Did Palisades ever enter --

13 A. I'm sorry -- and with their investment  
14 banker as well.

15 Q. Did Palisades ever enter into any kind  
16 of stand-still agreement with World Health  
17 respecting its debt and securities in World  
18 Health?

19 A. Yes, in fact, we did. We, we had all  
20 of our positions memorialized.

21 We agreed to have certain positions  
22 recast as preferred stock, out of debt.

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1 We also received liquidated damages in  
2 the form of additional preferred that we did not  
3 even value in the side pocket.

4 They were an asset of the fund, but we  
5 didn't feel it appropriate to increase the value  
6 of the side pocket in our management fees by  
7 adding liquidated damages that were the property  
8 of the fund.

9 Q. Do you recall the timing of that  
10 stand-still agreement?

11 A. October-ish, '05.

12 Q. Okay. Earlier today, you were asked  
13 whether or not Palisades had filed a lawsuit  
14 against World Health.

15 And I believe you testified that, that  
16 Palisades had indeed filed a lawsuit, but you did  
17 not remember the timing of that lawsuit.

18 Is that a fair summary of your  
19 testimony?

20 A. I think so, yes.

21 Q. What was the purpose behind Palisades  
22 filing a lawsuit against World Health?

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1 A. To keep the, the line of communication  
2 open.

3 You know, my recollection of events may  
4 differ from others, but my recollection was that  
5 the correspondence and, and the, the negotiation  
6 between ourselves and the company and its counsel  
7 was very good all the way through the early part  
8 of September, and at which point, as I recall,  
9 the company went out and hired a restructuring  
10 firm.

11 I believe the first one was Alvarez and  
12 Marsal or Marsal and Alvarez, and all  
13 communications stopped, for whatever reason.

14 I don't know if it's just standard  
15 practice, that that's what they do with the  
16 restructuring firms.

17 But we, at that point, could no longer  
18 maintain an information flow, which is what was  
19 critical to us in being able to do our jobs to  
20 value the high pocket and to, to manage this  
21 position through to hopefully a positive outcome.

22 And we couldn't get return phone calls.

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1 We couldn't get information. We couldn't get  
2 documentation surrounding our, you know -- just  
3 that was, that was, that was the reason.

4 Q. Okay. And --

5 A. Excuse me.

6 Q. What was the result of your filing of  
7 the lawsuit with respect to the communications or  
8 the lack of communications with the company?

9 A. Well, they improved pretty  
10 dramatically. They improved dramatically.

11 We were, we were, as a result, able to  
12 be part of the, the working group, if you will,  
13 around what was happening.

14 We had information flow from the  
15 investment bankers.

16 We were privy to the deal sheets or the  
17 valuation sheets that they were sending around to  
18 prospective buyers of the company.

19 And that was very helpful to us in  
20 helping to formulate our own valuations for the  
21 business as it went through a sale process,  
22 because they were independent. They were third

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1 party, and they were being done by a renowned  
2 expert in place.

3 So that was, that was invaluable to us,  
4 and frankly, it, it did a good job to, to back up  
5 what we believed, that we had -- this was a good  
6 business here, that this was a good company.

7 It, it memorialized for all time what  
8 we owned.

9 There was no discussion about and no  
10 speculation about what securities we owned, and  
11 it accrued liquidated damages for months worth of  
12 non-payment and non-registration, and all other  
13 things, so it was, I mean it was a positive  
14 development.

15 Unfortunately, the net result was, at  
16 the end of the day wasn't, we didn't get any  
17 more, but it was a positive development at the  
18 time.

19 Q. And do you recall whether Palisades  
20 voluntarily dismissed its lawsuit against World  
21 Health?

22 A. I believe we did.

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1 Q. Okay. I'm going to ask you to take a  
2 look at Exhibit 44 that you were shown earlier  
3 today by Mr. Williams, and that was your  
4 testimony before the SEC Enforcement Division  
5 staff in May of 2009.

6 And Mr. Williams pointed you to I  
7 believe page 100 and page 101 of the transcript.

8 A. Okay.

9 Q. Do you see that?

10 A. Um-hm.

11 Q. And in particular, he pointed you to a  
12 series of questions regarding the valuation as  
13 identified on what's been marked in this case as  
14 Exhibit 22, but was marked as Exhibit 5 during  
15 your investigative testimony.

16 Do you recall that?

17 A. His questions, yes, ma'am.

18 Q. Okay. And with respect to your  
19 testimony, Mr. Williams pointed you to your  
20 May 2009 testimony regarding the valuation of the  
21 restricted common stock, and the back and forth  
22 between you and I believe Mr. Aderton regarding

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1 whether or not the valuation as identified on  
2 what was then Exhibit 5 and it's now Exhibit 22,  
3 might have been an error.

4 Do you recall that?

5 A. Yes.

6 Q. Now Mr. Williams did not ask you today  
7 to clarify your testimony on the record in May of  
8 2009, but I'm going to do so today.

9 Is there anything you would like to say  
10 today to clarify your testimony that's reflected  
11 on page 100 and page 101?

12 A. Well, you know, when I was asked the  
13 question, and this is, again, one of the benefits  
14 of hindsight, you know, couple years post this  
15 interview, and the ability to, to review this  
16 transcript, the document page number 1603, I mean  
17 when I looked at it, it's actually rather  
18 confusing to me, to be honest with you, because  
19 it uses terms like market value.

20 And so if you, if you look at the  
21 question that was asked of me, market value, in  
22 my brain, is the price at the market times the



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1 number of shares you have.  
 2 But definitionally, on our spreadsheet,  
 3 definitionally, from the, in the administrator's  
 4 perspective, that's the carrying value for the  
 5 fund.  
 6 It's not market value the way I was  
 7 thinking of market value when the question was  
 8 posed.  
 9 And so my initial response was well,  
 10 somebody obviously doesn't know how to use a  
 11 calculator because I just did some quick math in  
 12 my head, and I said well, 22 cents times 1.89  
 13 million is roughly 190,000. Somebody just added  
 14 some extra zeros.  
 15 But actually market value is the market  
 16 value that the fund is carrying the asset at, not  
 17 market value pursuant to what market value is.  
 18 And it was just a confusion by -- it  
 19 was just my own misstep back then in May of 2009.  
 20 And having hindsight and being able to  
 21 re-review everything, it's very clear that market  
 22 value to the fund and the NAV means something

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1 very different than what the market value is in  
 2 the open market.  
 3 Q. Sitting here today, Mr. Reckles, do you  
 4 agree with the valuation that is reflected on  
 5 Exhibit 22 pertaining to the restricted common  
 6 stock for August of 2005?  
 7 A. Yes, I do.  
 8 Q. Okay. And you mentioned that, you  
 9 know, since May of '09, you've had the benefit of  
 10 hindsight.  
 11 What did you do to review this question  
 12 that was posed by the SEC and be able to testify  
 13 today that, that your testimony here today is  
 14 reflective of your belief with respect to the  
 15 restricted common stock value?  
 16 A. The only thing that I've done in  
 17 preparation for any of this is reviewed my, my  
 18 testimony from the May of '09 interview, so I  
 19 reviewed my transcripts.  
 20 That was it.  
 21 MS. LAMBRAKOPOULOS: I don't have any  
 22 further questions.

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1 FURTHER EXAMINATION BY COUNSEL FOR  
 2 PLAINTIFF  
 3 BY MR. WILLIAMS:  
 4 Q. Okay. With respect, with respect to  
 5 Exhibit No. 44, and --  
 6 A. Forty-four is --  
 7 Q. The transcript.  
 8 A. Okay. Thank you.  
 9 Q. And Ms. --  
 10 MS. LAMBRAKOPOULOS: Lambrakopoulos.  
 11 MR. WILLIAMS: I apologize.  
 12 MS. LAMBRAKOPOULOS: That's okay.  
 13 BY MR. WILLIAMS:  
 14 Q. -- directed you to your testimony, and  
 15 you indicated that you had clarification of your  
 16 testimony.  
 17 In fact, what you just articulated is  
 18 not a clarification?  
 19 It's a change in your testimony,  
 20 correct?  
 21 A. Well, I, I don't, I don't know that it  
 22 is.

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1 I mean when I testified earlier in the  
 2 day, you asked me a question, but I didn't get an  
 3 opportunity to do anymore.  
 4 You asked a very pointed question.  
 5 That was it.  
 6 Q. Right.  
 7 A. So this was just a, I just didn't -- I  
 8 didn't answer correctly, and I'm really  
 9 clarifying what is factual.  
 10 I mean, by example, if you look three  
 11 steps above that, SLD, right, you've got a cost  
 12 there of 7.35.  
 13 Well, if you multiply 790 three hundred  
 14 79 by 22 cents, you don't get 7.3, but policy was  
 15 to carry it at the cost for that month. That's  
 16 what we determined, and that's what market value  
 17 meant, and that's what that column means.  
 18 Q. I see. So, so, just so I understand  
 19 your testimony, where there's a column on Exhibit  
 20 No. 22 indicating market value --  
 21 A. It's what the fund is carrying.  
 22 Q. It's not -- isn't that the fund's best



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1 estimate of what market value is?  
 2 A. In the case of the side pocket,  
 3 absolutely.  
 4 Q. But it's not market value? Didn't you  
 5 just disagree with the characterization of market  
 6 value? I'm sorry.  
 7 A. Your question was, the best, to the  
 8 best of the fund's ability to determine, right?  
 9 Isn't that what you said?  
 10 Q. Yes.  
 11 A. And as I, as it pertains to the side  
 12 pocket, that would be correct, because other  
 13 things have a printed market value. I mean  
 14 there, there was, there was a printed value.  
 15 Q. And referring you to page 142 of the  
 16 transcript?  
 17 A. Okay.  
 18 Q. And particularly beginning on line 11,  
 19 the question begins " -- reflected on Exhibit 5.  
 20 Which is PEF27415. And Exhibit No. 5 shows a  
 21 recovery of approximately \$2 million for those  
 22 shares. It shows a market value of approximately

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1 \$2 million for those shares. Exhibit No. 14  
 2 shows a zero dollar recovery.  
 3 "Do you know why that is?"  
 4 And you answer "Well, I think that  
 5 we've already concluded that on your Exhibit 5,  
 6 or at least I've concluded, 27415, column 'Market  
 7 value' for the 950,000 shares is just a  
 8 typographical. I mean clearly 22 cents times  
 9 950,000 is not..." 1.49 million.  
 10 A. 1.489.  
 11 Q. 1.489; and so first of all, were you  
 12 asked those questions, did you give that answer?  
 13 A. What was the question?  
 14 Q. Were you asked that question, and did  
 15 you give that answer?  
 16 A. Clearly.  
 17 Q. And you emphasized that it was a  
 18 typographical error in, on May 14th, 2005,  
 19 correct?  
 20 A. That's what the testimony says.  
 21 Q. Okay. Fair enough. So today, you've  
 22 amplified or given, given another explanation, is

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1 that fair?  
 2 A. Well, I think I've clarified it.  
 3 Q. Okay. And finally, you indicated with  
 4 respect to the lawsuit, prior to the filing of  
 5 the lawsuit, there was some ambiguity as to  
 6 exactly what Palisades owned, correct?  
 7 A. Not from our perspective.  
 8 Q. Right. Not from your perspective?  
 9 A. Yeah.  
 10 Q. But from the World Health perspective?  
 11 A. Correct.  
 12 Q. And you indicated that prior to the  
 13 filing of the lawsuit, you couldn't get a return  
 14 phone call from the company, is that right?  
 15 Is that fair?  
 16 A. Yes. Correct.  
 17 Q. And the filing of the lawsuit was  
 18 shortly after the preparation of the August  
 19 valuation, correct?  
 20 A. I don't recall, as I've testified. I  
 21 just don't remember when the suit was filed.  
 22 Q. I'll represent to you it was on or

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1 about September 26, 2005.  
 2 A. Okay. Then that would be several weeks  
 3 after the August NAV was filed.  
 4 Q. Okay. Finally, as you sit here today,  
 5 you continue to work in the financial services  
 6 industry.  
 7 My question to you is in connection  
 8 with the allegations in the SEC complaint in this  
 9 lawsuit, do you think you did anything wrong?  
 10 A. You know, that's a good question. I  
 11 think that, you know, I think that six and a half  
 12 years later, I think that, I mean it's, it's been  
 13 pretty, pretty horrible. I mean I've got to tell  
 14 you.  
 15 You know, lost pretty much all my  
 16 money. Lost my house. Lost my car. Lost my  
 17 reputation.  
 18 So I would say that I have paid an  
 19 enormous price for actions that I don't think  
 20 rise to the price that we paid.  
 21 I don't believe on allegation one that  
 22 we did anything even remotely bordering on fraud

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1 as it related to our side pocket.

2 I think we used all of the best  
3 possible information that we could to formulate a  
4 valuation, and as the little exercise with the  
5 calculator indicated, what did we benefit?  
6 Fifteen grand? Sixteen grand? It wouldn't have  
7 ever, it wouldn't have been worth it.

8 So no, I don't think in the case of the  
9 valuation exercise, there was anything done that  
10 was wrong.

11 I think we did the best we could, and  
12 we were the biggest victim of all.

13 We were the biggest money loser in  
14 World Health bar none, bar none, everybody out  
15 there.

16 As it relates to the, the advance or  
17 loan, I think I, I think I was pretty clear in my  
18 testimony that the facts and circumstances in  
19 that particular scenario, the money was repaid on  
20 the exact same day.

21 It was almost as if it never actually  
22 even occurred.

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1 So no, I don't think there was anything  
2 done wrong.

3 I think we followed procedures and  
4 policies.

5 I think we spoke to the administrator  
6 and got his permission, and in, in fact he was  
7 the party that, that wired the funds. So, so I  
8 think I have a hard time.

9 I think the warrant exercise was one of  
10 the dumbest things I've done in the 41 years I've  
11 been alive, unquestionably, but that's why we  
12 disclosed it. That's why we self-penalized.

13 I mean we had already lost 980 some  
14 thousand dollars, and I think that that was  
15 plenty of punishment, but we, we took an  
16 additional \$165,000 penalty each back to the fund  
17 because as you, you deemed earlier, well, were  
18 the warrants in the money, sir?

19 Well, based on that date, okay, you  
20 could argue they were. Three days later, the  
21 company was 22 cents, so we paid the fund back  
22 \$165,000 each, each, after having lost a million

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1 dollars.

2 I think we, I think we, I think we paid  
3 our, our due there. I think we did.

4 So when I look at everything over the  
5 last seven years, I think yeah, there were some  
6 mistakes made.

7 I think specifically the warrant thing,  
8 I think that that was just, just bad judgment,  
9 but I think we resolved it. I think we resolved  
10 it appropriately, and I think we followed  
11 counsel's advice to resolve it appropriately.

12 I don't think besides that, anything  
13 was done wrong. I just don't.

14 And I think that, with all respect to  
15 your organization, because I do have respect for  
16 you guys, I do, I think that you guys have spent  
17 an awful lot of time and energy on something that  
18 amounts to \$16,000, 16 grand at best, at best.  
19 That's the monetary benefit here. That's it.  
20 Six and a half years, countless man hours, how  
21 many dollars and what have you, my reputation,  
22 because I'm the one that got lambasted in the

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1 press. I don't get to fight back.

2 Q. Okay.

3 A. I couldn't even go to church I was so  
4 embarrassed. I couldn't even go to church for  
5 four weeks. I couldn't show my face.

6 I didn't leave my house for four weeks,  
7 over sixteen grand, guys.

8 No, I don't think we did anything  
9 wrong.

10 Q. Okay. So if going forward, you were  
11 put in the same situation that you were back in  
12 2005, you'd do, you'd do the same thing?

13 A. No. That's not the question you asked  
14 me.

15 The one beautiful thing about hindsight  
16 and getting to be a little bit older and wiser is  
17 I'd never allow myself to get in that situation  
18 again.

19 I don't have any interest in managing  
20 money.

21 Q. Okay.

22 A. I don't have any interest in doing

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1 that. So -- and if for some strange reason, I  
 2 ever found myself in that position again, which I  
 3 can't even fathom, there's, there's no way that I  
 4 would allow any one position in my fund to even  
 5 get close to the size of, of a World Health so  
 6 that it could create such a problem.

7 And I think that that's all I could  
 8 say, but I don't ever see myself ever managing  
 9 money again, so that's the beauty of all of this.

10 At least I've come to know myself  
 11 better after six years of investigation, and I  
 12 know that this is not what I want to do again.

13 Q. Okay.

14 A. It wasn't a lot of fun.

15 Q. That's all I have for you, sir.

16 A. Okay.

17 Q. Thank you very much.

18 MS. LAMBRAKOPOULOS: I don't have any  
 19 further questions.

20 BY MR. WILLIAMS:

21 Q. Okay. And with that, before we go off  
 22 the record, I want to stay on the record, thank

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1 you for --

2 A. Sure.

3 Q. Mr. Reckles, for making the trip --

4 A. Absolutely.

5 Q. -- to Washington, D.C. I understand  
 6 you had a sacrifice in your personal life in  
 7 terms of your, your grandchild.

8 A. Well, we're finding out. My wife keeps  
 9 texting me stuff, but I can't make heads or tails  
 10 of it, so either she's either sending me a  
 11 sonogram or whatever --

12 MS. LAMBRAKOPOULOS: When counsel  
 13 concludes the deposition, you can go.

14 THE VIDEOGRAPHER: This concludes the  
 15 video deposition of Andrew Reckles. The time on  
 16 the video is 6:15 p.m.

17 We are off the record.

18 (Whereupon at 6:15 p.m., the taking of  
 19 the instant deposition ceased.)  
 20  
 21  
 22

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# CERTIFICATE OF DEPONENT

1 I hereby certify that I have read and examined the  
 2 foregoing transcript, and the same is a true and  
 3 accurate record of the testimony given by me.  
 4 Any additions or corrections that I feel are  
 5 necessary, I will attach on a separate sheet of  
 6 paper to the original transcript.  
 7  
 8  
 9

10 \_\_\_\_\_  
 Signature of Deponent  
 11

12 I hereby certify that the individual representing  
 13 himself/herself to be the above-named individual,  
 14 appeared before me this \_\_\_\_\_ day of \_\_\_\_\_,  
 15 2011, and executed the above certificate in my  
 16 presence.  
 17

18 \_\_\_\_\_  
 NOTARY PUBLIC IN AND FOR  
 19

20 \_\_\_\_\_  
 County Name  
 21

22 MY COMMISSION EXPIRES:

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# CERTIFICATE OF NOTARY PUBLIC

1 I, Catherine S. Boyd, the Notary Public  
 2 before whom the proceeding occurred, pages 1  
 3 through 379, do hereby certify that the witness  
 4 was duly sworn, that the testimony of said  
 5 witness was taken by me and thereafter reduced to  
 6 this typewritten transcript under my supervision,  
 7 that said transcript is a true record of the  
 8 testimony given by said witness, that I am  
 9 neither counsel for, related to, nor employed by  
 10 any of the parties to the proceeding, and  
 11 further, that I am not a relative or an employee  
 12 of any attorney or counsel employed by the  
 13 parties thereto, or financially or otherwise  
 14 interested in the outcome of the proceeding, or  
 15 any action involved therewith.  
 16

17 Witness my signature and seal:  
 18

19 CATHERINE S. BOYD  
 20 Notary Public in and for  
 21 The District of Columbia  
 22

My commission expires: September 14, 2012